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On the  
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**INFRASTRUCTURE AND THE WORLD BANK**

Attached for the September 25, 2005, Development Committee Meeting is a progress report entitled "Infrastructure and the World Bank."

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**INFRASTRUCTURE AND THE WORLD BANK:  
A PROGRESS REPORT**

**INFRASTRUCTURE VICE-PRESIDENCY  
WORLD BANK**

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## Abbreviations and Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
AFR	Sub-Saharan Africa
APL	Adaptable Program Loan
CAS	Country Assistance Strategy
CBO	Community-Based Organization
CIS	Commonwealth of Independent States
DFID	Department for International Development, United Kingdom
DPL	Development Policy Loan
EAP	East Asia and the Pacific
EBRD	European Bank for Reconstruction and Development
ECA	Eastern Europe and Central Asia
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
ESMAP	Energy Sector Management Assistance Programme
EU	European Union
GPOBA	Global Partnership for Output-Based Aid
GDP	Gross Domestic Product
GEF	Global Environment Facility
GPP	Global Partnerships and Programs
IADB	Inter-American Development Bank
IAP	Infrastructure Action Plan
ICT	Information and Communications Technologies
IFI	International Financial Institution
JBIC	Japan Bank for International Cooperation
LCR	Latin America and the Caribbean
MDG	Millennium Development Goals
MIC	Middle Income Countries
MNA	Middle East and North Africa
NEPAD	New Partnership for Africa's Development
OBA	Output-Based Aid
OECD	Organisation for Economic Co-operation and Development
OPCS	Operational Policies and Country Services
PER	Public Expenditure Review
PPP	Public Private Partnership
PPIAF	Public-Private Infrastructure Advisory Facility
PRSC	Poverty Reduction Strategy Credit
REDI	Recent Economic Developments in Infrastructure
SADC	Southern African Development Community
SAR	South Asia Region
SSA	Sub-Saharan Africa
SWAP	Sector-Wide Approach
WBG	World Bank Group
WSP	Water Supply and Sanitation Program
WSS	Water Supply and Sanitation

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## EXECUTIVE SUMMARY

### *The Development Context*

1. Infrastructure has a central role in the development agenda and is a major contributor to growth, poverty reduction and achievement of the MDGs. However, in the last decade, infrastructure investment in developing countries has fallen significantly, driven by declining public as well as private investment. As a consequence, most developing countries now face the challenge of correcting for huge infrastructure gaps that threaten growth and the achievement of social and other broader development goals. At the same time, the World Bank faces the challenge of rebuilding its support to clients for infrastructure service delivery. This report, requested by the Development Committee<sup>1</sup>, is intended to provide an overview of the Bank's progress in tackling this challenge, including assessing the fiscal implications of restoring infrastructure investment to the levels required for sustained growth.

2. The needs for access to good quality, reliable and affordable infrastructure are universal in developing countries, yet the nature of the infrastructure 'gap' varies. In low income areas, there is a large demand for increased access to basic infrastructure services, but service quality and reliability are also essential to maintaining economic growth and competitiveness, and are of particular concern to middle income clients as well. In almost all countries, impediments to more efficient service delivery exist, such as difficulties in developing appropriate tariff policies, fiscal stress, weak government institutions, and lack of capacity to engage the private sector. Sustainable investment in infrastructure will require the establishment of tariffs that cover the costs of efficient service delivery, while taking into account affordability concerns using subsidies where appropriate to ensure equitable service provision. Improvements in governance, including legal and regulatory frameworks and the need for greater transparency, and capacity building at multiple levels of government—central, regional and local—will also be critical to the long term viability of investments.

3. Global trends, such as urbanization and environmental degradation, are generating a worldwide demand for improved urban infrastructure and a greater emphasis on supporting environmental initiatives. Corruption is also a global concern that impacts infrastructure service delivery in all regions. However, the way in which broad investment needs and global issues translate to service delivery challenges varies by region. These regional influences, such as inequality in Latin America and the need for regional integration in Africa, play a critical role in shaping infrastructure investment, both now and in the future.

### *Progress on the Infrastructure Action Plan*

4. The Infrastructure Action Plan, launched in July 2003, was developed to revitalize the Bank Group's infrastructure business in support of client demand to address unmet infrastructure investment needs and help meet broader development goals. This demand has been translated into an approximate \$1 billion increase in lending per year for infrastructure since FY03. Total Bank lending for infrastructure in FY05 reached over \$7.4 billion, representing 33% of the Bank's total portfolio.

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<sup>1</sup> As per the April 17, 2005 Development Committee Communiqué (Para 6), this report responds to the Governors' request of "reviewing implementation of the Action Plan at our next meeting, including the results of the ongoing work of the IMF and Bank on how to increase fiscal space for growth."

While, investment lending for infrastructure has increased significantly, there has also been an expansion in other instruments supporting infrastructure, such as PRSCs, DPLs, multi-sectoral lending (predominantly rural infrastructure), SWAPs, horizontal APLs, and guarantees. During this period of rapid increase in lending, quality has also remained consistently high (with the percentage of the infrastructure portfolio at risk remaining below Bank-wide averages) and processing costs and times for project preparation have decreased significantly, while the integrity of the Bank's safeguards has been maintained. Lending volumes have been supported by more comprehensive non-lending services and increased partnering with regional development banks, bilateral donors, as well as other international institutions such as the EU. Bank lending has also been accompanied by increases in both IFC and MIGA infrastructure businesses. IFC commitments increased from \$722 million in FY02 to \$800 million in FY05, with an accompanying increase in the profitability of the business, while the infrastructure share of MIGA's portfolio grew from 29% in FY01 to 38% in FY05.

5. The Bank has the potential to nearly double its FY03 lending by FY08, while maintaining high quality, however, the increase in support to infrastructure is still very small relative to needs. It is expected that the Bank's infrastructure business will continue to increase to meet client demand at a sustained rate of \$1 billion per year for the next 2-3 years, to reach about \$10 billion. This would return infrastructure to its historic share of about 40% of total Bank lending. Steady, continued growth is expected from all regions, reflecting the diversity of challenges in each region. In line with international attention to Africa, the region's business is expected to increase significantly. Sector programs will be adjusted by expanding existing business lines and shifting to new areas of emphasis where appropriate. In parallel, staff volumes and skills mix will continue to be monitored and aligned to meet demand.

6. As part of this scaling-up, the Bank will emphasize meeting differentiated client demand at multiple levels of government. A strong core business at sovereign and community levels will be maintained while growing the global, regional, and sub-national businesses. Global support for "public good" issues and activities is increasingly needed. Support for regional projects and programs is expected to increase, including large/complex projects (such as hydropower), responding to demand from those regions with potential for greater integration and multi-country engagement. The Bank Group will further its efforts to respond to client demand for sub-national level support stemming from the shift in government responsibilities from national to sub-national levels; as such, it will seek to scale up Bank Group activities in ways which integrate financing, policy advice and capacity building for sub-national development.

7. A key ingredient in supporting clients going forward will be assistance to unlock both public and private investment for infrastructure, as the Bank alone will not be able to address the tremendous needs in client countries. This will require greater emphasis on assisting clients to improve the efficiency of public expenditure and formulating fiscal policies that are both consistent with sound macro management and responsive to developmental needs. It will also demand better leveraging of Bank support to encourage the participation of the private sector, including: adapting approaches to meet the needs of client countries and the private sector (such as increased use of PPPs); increasing efforts to employ risk mitigation solutions; and better acknowledging and measuring the role of leverage across the institution. Improving coordination and cooperation across the Bank Group will be critical as part of an ongoing effort to deliver seamless Bank Group product offerings, to build on successful examples at the project level, and to move from a project-based approach to a country and sector-based approach emphasizing joint long-term planning within the Bank Group.

8. As the Bank continues efforts to focus on infrastructure service delivery, it will need to continue to ramp up investments while at the same time supporting an environment conducive to sustaining these investments. The Bank has a rich experience to draw on to ensure a continued high quality of lending, and efforts are continually being made to ensure that lessons learned from the past are incorporated into activities going forward. An integral part of this effort will be improved measurement impact, including impact on the poor. The Bank's infrastructure business, in partnership with other multi- and bi-lateral organizations, is committed to the 'results measurement' agenda. This is an important initiative to develop more accurate and transparent measures of performance, to increase accountability, and to improve the quality and sustainability of development impact at the project, country and global levels.

9. In support of this broad agenda, a number of specific initiatives will be undertaken. The Bank will: engage directly through the Africa Infrastructure Consortium to scale up support to that region; increase attention to global challenges, with particular attention to more closely integrating energy access programs with the low-carbon agenda; and step up the results agenda, including an effort to harmonize work with other IFIs. Specific items will also be discussed with the Bank's Board of Directors. A proposal for how the Bank Group might proceed with further sub-sovereign engagement will be brought forth for discussion in the coming months. An interim progress report on Output-Based Aid (OBA) will be shared in the fall, followed by a review of OBA in conjunction with the IDA14 Mid-Term Review. In addition, a progress report on the Bank's work on fiscal space for growth will be shared with the Development Committee at the 2006 Spring Meetings.

# INFRASTRUCTURE AND THE WORLD BANK: A PROGRESS REPORT

## I. INFRASTRUCTURE NEEDS IN DEVELOPING COUNTRIES

**1. Infrastructure<sup>2</sup> has a central role in the development agenda and is a major contributor to growth, poverty reduction and achievement of the MDGs.<sup>3</sup>** Numerous studies have demonstrated that economic returns to infrastructure investments are high, and infrastructure services—especially those contributing to improved investment climate and trade—can make significant contributions to the growth of an economy. At the same time, infrastructure services provided at the household level are often directly correlated with poverty reduction. Related to this is the contribution that infrastructure makes to the achievement of the MDGs, both directly (such as reducing the proportion of people without reliable access to safe drinking water and basic sanitation, or making housing and shelter more accessible) and indirectly, by supporting MDGs related to human development (e.g. education, health, empowerment of women). Evidence shows that access to improved water and sanitation supports health improvements and frees up women’s time from daily chores. Similarly, connecting health clinics to electricity improves healthcare delivery and linking roads to schools improves school attendance.

**2. Governments in the developing world are investing too little in infrastructure.** The infrastructure investment needed to keep up with projected growth in the developing world is estimated to be equivalent to 5.5% of developing countries’ GDP annually. For lower income countries, the target could be as high as the 7%-9% range. Approximately half of this investment will be required for new infrastructure investments and approximately half for maintenance of existing assets. Currently the public sector in developing countries, which on average provides about three-fourths of all infrastructure investments in their countries, is spending 2%-4% of GDP on infrastructure investment. Many governments in East Asia are investing relatively more, but Latin American governments are estimated to be currently investing as little as 1.6% of GDP on average, and in Africa—where there are tremendous needs—investment is currently at 2%-3% of GDP. Persistent under-investment in infrastructure will have a negative impact on potential economic growth, living standards, and private sector development. Studies suggest that increasing Latin America’s infrastructure to the East Asia median level would result in an increase in annual GDP growth of 1.4%-1.8% and reduce income inequality by 10%-20%.

**3. Despite the high returns from infrastructure investment, fiscal stresses are exacerbating investment needs.** Evidence suggests that, partly as a result of the fall in infrastructure investment and deferred maintenance, rates of return on infrastructure investment are extremely high. There is a lack of balance between spending for infrastructure and for other purposes. This is often exacerbated by fiscal rules (e.g. earmarking of revenue in Brazil) or focus on fiscal deficit targets that emphasize cash flows, regardless of composition. This is most notable in South Asia and Latin America, where the expansion of public investment in infrastructure is rendered difficult because levels of public indebtedness are perceived to be excessive, even though such an expansion would be economically optimal (see paragraphs 48-54).

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<sup>2</sup> The term “infrastructure” refers to energy (including oil, gas and mining), information and communications technology (ICT), transportation, water supply and sanitation and urban services.

<sup>3</sup> Many of these issues, such as infrastructure’s links to economic growth and the climate for private sector activity, the need to invest in infrastructure to reach the MDGs, and the need to substantially increase spending on both infrastructure investment and maintenance have been raised in the Global Monitoring Report 2005.

**4. At the same time, the private sector has not been able to fill the investment gap.** The private sector continues to be a very important contributor to global infrastructure development accounting for approximately 20% of total annual infrastructure investment in developing countries, approximately seven times as much as Bank Group investment. Private investment reached over \$100 billion per annum in both 1997 and 1998 (albeit largely concentrated in East Asia and Latin America and primarily in the telecom and energy sectors), but has dropped significantly since, and recently leveled off at \$50-\$60 billion per year. Some countries, for example Argentina and Brazil (which in 1998 accounted for over 55% of total private investment in developing countries), have seen investment levels drop drastically after extensive privatization was completed. On the other hand, investment levels have been relatively steady over the past few years in most regions and increasing in several countries, such as Bulgaria, India, and Vietnam. In addition, new modalities of private investment—especially from local and neighboring country investors—are emerging. Overall, despite problems faced during the rapid entry of the private sector in the 1990s, private sector discipline and financing have had a positive impact on infrastructure service delivery, and more is needed.

**5. In low income areas, there is large demand for increasing access in addition to improving service quality.** Sub-Saharan Africa lags significantly behind all other regions in access levels for all infrastructure services (see Box 1). South Asia is also well below the access rates of others, with the exception of water supply. Low income countries, and even low income regions within higher income countries, also have tremendous access shortfalls. Cambodia and Laos have electricity access rates of 15% and 38% respectively, relative to the regional average of 88%, and only 31% of rural Albanians live within two kilometers of an all-season road relative to the regional average of 77%. This low access hampers human development as well as economic growth.

<b>Box 1: Basic Infrastructure Indicators</b>						
<b>Region</b>	<b>AFR</b>	<b>EAP</b>	<b>ECA</b>	<b>LCR</b>	<b>MNA</b>	<b>SAR</b>
<b>Population (million)</b>	674	1,823	474	518	300	1,378
<b>% living on less than \$1 a day</b>	46%	15%	4%	10%	2%	31%
<b>% urban population</b>	36%	43%	65%	77%	59%	28%
<b>% urban population projected by 2030</b>	51%	62%	70%	85%	70%	42%
<b>Major Access Indicators</b>						
<i>Electricity</i> (% of population with access to network)	24%	88%	99%	89%	92%	43%
<i>Water</i> (% of population with access to improved sources)	58%	78%	91%	89%	88%	84%
<i>Sanitation</i> (% of population with access to improved sanitation)	36%	49%	82%	74%	75%	35%
<i>Roads</i> (% of rural pop. living within 2 kms of an all-season road)	34%	95%	77%	54%	51%	65%
<i>Teledensity</i> (fixed line and mobile subscribers per 1000 people)	62	357	438	416	237	61
Sources: WDI (2001, 2002, 2003); World Urbanization Prospects (2003); International Energy Agency (2002, 2004)						

**6. Access is not the only challenge—quality and reliability of infrastructure are critical constraints in many countries.** Access rates are already high in many middle income countries (MICs). For instance, 97% of Chinese and 99% of Russians have access to electricity. Therefore a major objective in these countries is to improve the quality and reliability of existing infrastructure services essential to maintaining economic growth and competitiveness. The quality of infrastructure services plays a key role in the ability of the private sector to operate efficiently. For example, firms in the Middle East report that electricity outages reduce their annual sales by as much as 6% and intermittent water supply reportedly takes away 4% of sales from East Asian firms. In addition,

improving the quality of transportation infrastructure plays a key role in reducing road traffic injuries, which are estimated to cost approximately 1% of GDP in low-income countries.

**7. Many impediments at the country level need to be overcome to provide efficient infrastructure service delivery.** Developing countries have faced a continual struggle to overcome impediments to efficient and financially sustainable infrastructure service provision. First, expanding public investments in infrastructure, even if economically justified, will increase fiscal stress in many countries. This is exacerbated by inefficiencies of public expenditure and inadequate fiscal policies, which need to be consistent with sound macro management and responsive to developmental needs. Second, setting cost recovery tariffs for power, transport services, and particularly for water and sanitation is challenging and exacerbated by the low income levels of most developing country consumer groups. As a consequence, infrastructure service providers may, in some cases, tend to provide services primarily to middle income consumers (resulting in inequalities in service provision) or impose non-affordable solutions on low income groups without appropriate subsidy policies. Third, governance and capacity building are critical challenges to infrastructure service delivery in order to plan and prioritize for infrastructure investments (including planning ex-ante for long-term operations and maintenance costs, and monitoring performance), to regulate infrastructure markets and utilities, and to undertake construction of new facilities to expand service delivery. Finally, developing countries need to be better equipped to enlist the support of private sector investors to increase infrastructure service delivery, while ensuring that risk allocation is appropriate and the political economy of private interventions is well handled.

**8. Sustainable infrastructure services require tariffs, coupled with subsidies where appropriate, that recover the costs of efficient service delivery.** After continued reform efforts in infrastructure sectors across developing countries, many countries are still working towards cost recovery. In Africa, tariffs cover less than 20% of operations and maintenance costs for power service delivery, and virtually no power utilities receive a reasonable return on investment. Yet, full cost-recovery from every consumer may not be appropriate where it renders service unaffordable to the poor. Working out when and how to subsidize is crucial. Results-oriented and well-targeted subsidies are being piloted in several countries using Output-Based Aid (see Annex A). Efficient delivery is also critical for sustainable infrastructure services, yet inefficiency and waste remain rampant in many countries. Almost 60% of produced water is lost in Tanzania; power losses of more than 25% are common across South Asia; and the value of power losses in Azerbaijan equals almost 3% of the country's GDP. Improving the efficiency of service delivery will help create financially sustainable infrastructure operations.

**9. Investment must also be accompanied by improvements in governance and capacity building at multiple levels of government.** As governments reform infrastructure sectors across the developing world, they face the challenges of sector governance such as effective regulation of markets, planning and prioritization of investments, financial sustainability of sectors, management of resource revenues, and elimination of corruption (see Box 2). Corruption needs to be tackled throughout the infrastructure project chain: project identification, contract award, financing, procurement, and service delivery. Many have looked to decentralization as a means of promoting increased accountability in infrastructure development, but for decentralization to reach its potential, capacity for sector governance—including human resources as well as legal and regulatory frameworks—needs to be built at multiple levels of government.

### **Box 2: Extractive Industries Transparency Initiative**

The Extractive Industry Transparency Initiative (EITI) was launched by the Government of the United Kingdom in September 2002. It was developed in recognition that large resource revenues can bring about sustainable development, but when governance is weak, oil, gas and mining are often linked to poverty, corruption and conflict. The EITI aims to improve governance in resource rich developing countries by supporting the full publication and verification of company payments and government revenues from the oil, gas and mining industries. This initiative is supported by a broad coalition of governments, companies, civil society groups, investors and international organizations. The guiding principles and framework of the EITI were agreed upon at two major international stakeholder conferences held in London in 2003 and 2005. Implementing the EITI as part of a program of good governance will help to ensure transparency, accountability and balanced economic development. Some twenty developing countries have either endorsed or are actively implementing the EITI. A Secretariat based in the UK Department for International Development currently supports the initiative, and works closely with the World Bank and IMF. The World Bank is taking the lead in supporting implementation in most countries, and administers a multi-donor Trust Fund (with some \$5.0 million committed by the UK and Norway).

## **II. KEY REGIONAL INFRASTRUCTURE ISSUES**

**10. In each region, infrastructure will be subject to local factors.** The need for access to good quality, reliable and affordable infrastructure is universal in developing countries, and some predominant global trends—such as urbanization and environmental degradation—are affecting infrastructure needs and strategies throughout the developing world (see Box 3). In addition, lack of transparency and corruption are prevalent in infrastructure sectors across regions. But the way these issues are translated into the specific challenges related to delivering services varies by region. For instance, there may be a need for greater government involvement in planning in one region (e.g. greater national investment planning, and coordination across decentralized government authorities in some East Asian countries), yet less centralized planning in another region (e.g. unbundling the large state-owned utilities in some Middle Eastern countries). Regional differences will also dictate the nature of infrastructure needs; for instance, the geopolitics of Africa, Latin America, and Eastern Europe often allow a more integrated regional response to issues such as trade, transportation and energy compared to other regions. The following provides a flavor of key influences and priorities for infrastructure in each of the World Bank client regions.

### **Box 3: Urbanization and Environmental Damage: Changing Demands on Infrastructure**

**Urbanization is placing growing pressure on urban infrastructure, with service gaps particularly impacting the poor.** Within a generation, the developing world is expected to be predominantly urban and the process of urbanization is shifting poverty from rural to urban areas. In Latin America, the Caribbean, Eastern Europe and Central Asia more than half of the poor already reside in urban areas with the proportion expected to grow to two-thirds over the next two decades (see Box 1). A massive transition to urban centers is also underway in Asia and is building momentum in Africa. By 2025, a third to almost half of the poor in Africa, East Asia and South Asia are expected to reside in cities or towns. Africa's urbanization rate is presently one of the highest with 70% of urban residents living in slums and growth concentrated in secondary cities (less than 200,000 inhabitants). The expansion of populations and economic outputs in urban areas without adequate policy actions to accommodate this trend has created an unmet demand for infrastructure services. Gaps in infrastructure are responsible for road congestion in major metropolises, power outages, intermittent water supply, unsanitary conditions, and unserved slums and informal settlements throughout the developing world.

**Infrastructure technology and lack of infrastructure have strong links to environmental health.** Most medium and large developing country cities do not have environmental infrastructure adequate to serve the existing population, thus meeting future growth presents a huge challenge requiring significant policy reforms, capacity development and very substantial capital investments. The lack of adequate and safe water supply combined with poor sanitation and drainage facilities in urban areas presents the most serious environmental health threat from waterborne diseases, particularly to the poor in slums. In many cities the solutions are well understood but the capital investment required, for example for sewers and waste treatment facilities, is considered by local leaders as too high and unaffordable. Similarly, many cities face increasing severity of urban air pollution including indoor air pollution caused by burning coal and biomass for cooking and heating. Reducing emissions from power plants, industry, and vehicles is increasingly recognized as a higher priority for infrastructure decision-makers. In many cities the use of lead in gasoline has been eliminated and conversion to cleaner fuels for transportation is increasing, but the rapid growth of vehicle population is resulting in increasing concentrations of air pollution leading to serious environmental health impacts. In some cities, fuel for heating and power generation as well as industrial production has been a major source of local air pollution and contributes to climate change. Considerable progress has been made over the last few years, particularly on meeting water supply needs. China and India are beginning to respond to their coal dependence by advancing cleaner energy sources and several countries are taking steps to reduce indoor and outdoor air pollution. However, few cities have sufficient environmental infrastructure to prepare them for the rapid growth they face.

#### ***Africa (AFR)***

**11. Sub-Saharan Africa lags behind other regions in most infrastructure indicators, which is causing critical bottlenecks to economic growth, poverty reduction and reaching the MDGs.** The region's increase in access to potable water supply, sanitation, and grid electricity was less than 10% over the 1990s (although teledensity more than quadrupled over that same time period). At this rate, the region is expected to fall somewhat short of reaching the MDG for access to improved water supply and approximately 85% of AFR countries are unlikely to meet the sanitation MDG, resulting in the AFR region as a whole missing this MDG by more than 20 percentage points. Poor quality and efficiency of service delivery relative to other regions are also a hindrance to growth. Surveys show that more than half of responding African firms identified electricity problems as a major or severe obstacle to business operation and growth. Constraints in other sectors, such as poor access to rural roads, are also contributing to slow economic growth in the region.

**12. African governments have limited capacity to implement a large-scale increase in investment and reform in the infrastructure sectors.** At the country level, many governments and service providers do not have sufficient expertise or resources to successfully implement the needed large increase in infrastructure services. In conjunction with investment increases, efforts are needed

to build-up institutional capabilities, reduce corruption, and focus on maintaining existing infrastructure stocks. In turn, donors also have an important contribution to make in terms of improving coordination and minimizing the administrative burden associated with project implementation.

**13. Regional initiatives are critical to support growth and competitiveness.** Given that there are 47 states in Sub-Saharan Africa with an aggregate GDP equivalent to half that of Spain, many opportunities remain for collectively utilizing the region's resources more efficiently. Africa has more than 60 shared rivers and regional cooperation for water development and management is crucial. Power generation costs in Burkina Faso and Mali are more than four times the costs in neighboring Cote d'Ivoire. Transport costs for trade within Africa are estimated to be more than twice as high as those in South and East Asia. Regional infrastructure (notably power pools, road corridors, and communications networks) is, therefore, critical to support growth and competitiveness by achieving economies of scale and reducing costs. This will mean greater emphasis on facilitating trade and transport across national boundaries, creating integrated energy markets, particularly power pools, supporting regional water resources management, and developing the private sector. It will also involve building capacity in Regional Economic Communities for project development and programming and for harmonizing and implementing reforms in cross-border and inter-regional trade policies.

### *East Asia and the Pacific (EAP)*

**14. East Asia's strong growth and rising incomes are outpacing infrastructure development.** High growth is placing increasing pressure on existing infrastructure across the region. The key regional challenge is to facilitate the progressive improvement of the investment climate for infrastructure as a pre-condition to attract domestic savings and international capital. Examples abound: Indonesia alone will need 2,000-2,500 megawatts of new installed capacity annually to sustain a 6% growth rate; the high-growth coastal provinces of China have recently begun to experience power shortages; and increasing urban motorization has contributed to acute traffic congestion in major cities across the region. Container berth capacity on EAP ports rose by only 8% a year between 1980 and 2000 while container fleet capacity on EAP routes increased by 20% a year.

**15. Growth is being accompanied by rapid urbanization and rising disparities in access to service.** In 2003, some 43% of EAP's population of over 1.8 billion lived in urban areas, the most rapid growth is occurring in the 'peri-urban' outskirts of East Asian cities. The urban population is expected to surpass 50% by 2025. Accompanying this is an increase in urban poverty—projected to rise from 25% in 1998 to 40% by 2025. Unequal access to infrastructure reinforces urban-rural and intra-urban inequality. While electricity access has increased significantly in the region (from 56% in 1990 to 88% in 2002), rural access in many countries is still low relative to urban areas. And within the EAP region's cities, the poor have significantly less access to piped water supply; an estimated 38% of households in informal settlements compared to 66% citywide. In addition, congestion, increasing trip length and deficient public transport services severely impact the mobility of the poor and the overall quality of urban living.

**16. Coordination between decentralized government authorities is a major challenge.** Within less than twenty years, previously centralized state structures have been significantly decentralized in EAP. Sub-national government expenditure as a percentage of total public expenditure now ranges from 10% in Thailand to close to 70% in China. This shift requires new relationships between central and decentralized governments as well as across decentralized authorities to coordinate the planning and financing of infrastructure. Without better coordination,

over or under-investment is likely to occur. For example, local level lobbying for air facilities across Thailand resulted in gross oversupply with many local airports now essentially in a state of abandonment. On the other hand, in both Indonesia and the Philippines, regional or provincial authorities have been left without sufficient mandate and resources. As a result of this “missing middle” issue, the secondary road networks in these countries, for example, are showing signs of neglect and externalities across local jurisdictions are often overlooked when designing infrastructure projects that span municipal boundaries.

### ***Eastern Europe and Central Asia (ECA)***

**17. The transition economies of ECA inherited vast infrastructure stocks from their socialist era, but much of the stock was designed to serve a planned economy built around heavy industry and military needs.** As a result, infrastructure quality was low and operations inefficient. The reorientation to market economy needs and pricing has led to the abandonment of some infrastructure, the resizing of other, and construction of new infrastructure where needed. The realignment, with attendant changes in pricing and operations, has taken place at different rates across the region. But overall access rates to critical infrastructure services, even in the poorer ECA countries, remain generally high compared to averages of other regions, although service quality lags behind. In addition, national fiscal deficits related to subsidizing tariff-cost gaps in the power, rail, and water sectors average around 6%, 2%, and 1%, respectively.

**18. Infrastructure challenges vary significantly between the poorer Commonwealth of Independent States (CIS) and the new and prospective EU member states.** All the countries in the region face both fiscal stress and implementation capacity constraints to their public investment programs. However, fiscal stress will prove to be a constraint in the poorer CIS countries sooner than implementation capacity constraints, which is expected to impact on middle-income countries in the near term. Many of the poorer CIS countries have infrastructure gaps similar to poor countries in Africa and South Asia. For example, Georgia and Azerbaijan both have on average over 60 days of electrical outages per year. The priorities of middle income countries, such as Russia, Kazakhstan, and Ukraine, are related to policy issues similar to those faced by other resource-rich countries, including the need to ensure good governance of their revenues and reduce economic dependence on extractive industries. For the new and prospective EU member states, the key challenge is to ensure rapid transition to international “best-practice” models of infrastructure service delivery, including through public-private partnerships (PPPs) and continued privatization.

**19. Regional economic ties, including prospective EU integration for some countries, are key drivers of more integrated infrastructure development.** Evolving market relationships have reoriented some sub-regional economies toward the EU, for example that of Southeast Europe, while others focus on Russia, China, or other regional economic powers. Some important initiatives are already underway to promote regional infrastructure development, such as Trade and Transport Facilitation in Southeast Europe, aimed at modernization of the customs administration and border control agencies, and the Energy Community of Southeast Europe, intended to develop a functioning regional electricity market integrated into the EU electricity market.

### ***Latin America and the Caribbean (LCR)***

**20. Public funding of infrastructure has sharply decreased, mainly as a result of fiscal adjustment, but this decline has not been offset by an increase in private financing.** In many countries in Latin America, the public sector cut infrastructure investment during the 1990s, partly with the expectation that the private sector would fill the gap. Average total investments were 3.7%

of GDP in 1980-85 (3.1 percentage points of which was public expenditure) but this fell to 2.2% of GDP in 1996-2001 (0.8 percentage points of which was public). Infrastructure investment disproportionately bore the impact of fiscal adjustment in the region. As a result, infrastructure deficiencies, both in terms of stock and quality, are hindering growth and efforts to reduce poverty. Infrastructure investments therefore now need to be increased, with an emphasis on improving the efficiency of public expenditure, even as many LCR countries face serious debt burdens and budget rigidities. Private financing has not been sufficient to offset reduced public investment, especially because private sector appetite for infrastructure investments has diminished sharply since 1999. This is partly due to negative public opinion across the region regarding privatization, despite it having had positive impacts on the quality and efficiency of services in many cases. To attract back the private sector, stronger contractual and regulatory frameworks and better financial instruments are needed, with the scarce public funds available employed so as to improve their leverage factor.

**21. Insufficient investment has created an infrastructure gap that affects competitiveness across the region.** Latin American firms consider poor infrastructure service to be a serious problem which negatively affects their productivity. Logistics costs in the region represent 20% to 30% of product value, against 9% for OECD countries. The key determinant of those costs is deficient infrastructure, particularly roads, ports, and the network of logistics terminals. Overall, high logistics costs make some LCR products uncompetitive in export markets. A recent analysis of investment climate surveys from six LCR countries finds that infrastructure-related variables can have a significant impact on average productivity. Infrastructure variables with the greatest impact on average productivity include electricity (power outages), transport services (interruptions), and customs efficiency (time to clear customs). And with import and export volumes expected to increase with trade liberalization agreements such as those in Central America and the Andean region, pressure on Latin America's transport infrastructure should increase in the coming years. Overall, for LCR countries to capture the benefits of their trade strategies, logistics costs need to decrease significantly. For those costs to decline, selective improvements in infrastructure stock and quality are needed.

**22. The region's sharp income inequalities are mirrored in great disparities in service access and quality across income levels, between urban and rural areas, and among countries.** In urban areas, generally high aggregate access figures often hide dismal coverage levels among the poorest. For example, only 35% of those in the lowest income quintile have piped water in El Salvador's cities compared to 87% of the richest quintile. A sharp urban-rural divide also persists in many countries, as the remoteness of rural communities can make connecting them difficult and expensive. This divide also tends to reflect and reinforce poverty profiles, given that rural areas are typically poorer than urban ones. Rural access to safe water is only 58% in Brazil and 59% in Chile, while the levels in urban areas are 96% and 100% respectively. Similarly, coverage is much better in the wealthier countries of the region. In Costa Rica, 98% of households have electricity, while in neighboring Nicaragua, the level is 58%, dropping to just 26% in rural areas. Throughout the region, a lack of adequate shelter and basic infrastructure services has detrimental secondary effects for the poor, limiting their chances of escaping poverty; it endangers their health, reduces their capacity to secure jobs or attend schools, erodes social capital and contributes to crime and violence. Deficient transport infrastructure limits market access, particularly for rural products, adversely impacting small farmers and producers. Greater efforts to extend infrastructure services to the poor and rural inhabitants will therefore improve not only their quality of life, but also their economic prospects.

### *Middle East and North Africa (MNA)*

**23. The lack of infrastructure sector reform continues to be a major impediment to growth.** The MNA region's growth rates have been improving, but even higher increases in growth could be possible with improved infrastructure service delivery. Sector governance, such as the effective regulation of markets and the financial sustainability of sectors, remains among the key issues to tackle in the MNA region. Out of 15 World Bank client countries in the MNA region, only five are judged to be at a moderate to advanced stage in water sector reform (Iran, Jordan, Morocco, West Bank Gaza, and Yemen), and three are at an equivalent stage in power sector reform (Algeria, Jordan and Morocco). Most infrastructure providers in the region continue to be government departments, state-owned enterprises, or parastatals which often operate inefficiently under bureaucratic rules and without hard budget constraints. One of the consequences of this slow reform has been a lack of private participation in infrastructure; the region has received only 4% (\$31 billion) of total private investment in infrastructure in developing countries between 1990 and 2003 with almost 80% of these resources going to only four countries. Improving the management of infrastructure services through increased private participation, particularly by building operators' capacities and allowing the transfer of more private sector know-how, could bring about greater efficiency and better quality of service.

**24. Competitiveness in the region is being limited by infrastructure bottlenecks.** According to the World Economic Forum's Growth Competitiveness Index, MNA countries generally rank in the top half of the developing countries surveyed. But more consistent and efficient infrastructure services will be needed to provide firms with the basis to continue to compete in international markets. Average regional waiting times for a new telephone and electricity connection are 174 and 125 days respectively (more than four times developing country averages) and firms suffer outages on average per year of 42 days for water services, 25 days for telephone services, and 14 days for electricity services. As a result, 23% of firms choose to maintain their own electricity generation capacity. In the transportation sector, clearing a container into some MNA countries can take more than 8 days (compared to a few hours in most developed countries) and traffic congestion in many capital cities of the region is among the highest in the world with an average of 2 hours per day per person spent in the transport system (compared to less than one hour in other developing countries). In addition, Internet usage among the general population in the region stands at 1.1% (28% for firms), which is less than half the average for the developing world.

**25. Managing and allocating water supply more effectively will be a key to long-term sustainability of resources.** The MNA region has approximately 5% of the world's population, but less than 1% of the world's renewable fresh water supplies. The agricultural sector, which accounts for 87% of water use in the region, is characterized by high water wastage. Given the importance of incentives for water conservation, both agricultural and residential water tariffs are still too low to recover costs. Water prices for agricultural use and water prices for residential use typically recover less than 50% and 75%, respectively, of operations and maintenance costs. Not only is this contrary to resource conservation, it is also creating a drain on public sector resources. Water subsidies represent 10% of government expenditure in Egypt, 8% in Yemen, and 3% in Iran.

### *South Asia (SAR)*

**26. Extending access to infrastructure services to both businesses and households (especially the poor) will be critical to sustaining the region's high growth rates, and ensuring its benefits are shared with the region's large number of poor.** Investment climate surveys routinely show infrastructure as a leading impediment to business growth in South Asia –with shortcomings in electricity service identified as the greatest obstacle to business operation, above

corruption and taxes. Infrastructure quality in South Asia is low relative to other regions (with the exception of cell phones) and hundreds of millions of people have no access to basic services. Access to power services ranges from 6% in Afghanistan to 64% in Sri Lanka. Only 39% of Bangladeshi households have access to all season roads and recorded rates of urban water supply and sanitation services vary greatly. Within India, access to water is intermittent in all major cities (e.g. no city with a population of more than one million has a 24 hr supply), and access levels range from below 60% in states like Mizoram and Kerala to close to 100% in Punjab and Delhi. The limited reach and poor quality of infrastructure services is a major constraint to growth and achievement of the MDGs.

**27. Across South Asia, the utilities responsible for service provision remain almost universally in the public sector and are characterized by inefficiencies and weak governance.**

This in turn yields poor and conflicting incentives to provide efficient and reliable service, or to expand services to the poor. Even where significant steps have been taken towards the commercialization of service provision (e.g. in the power sector), service delivery and pricing generally remain highly politicized – reflected keenly in a political unwillingness to sanction cost-covering tariffs for power services – often at high fiscal costs (in Pakistan power sector losses are equivalent to 1.5% of GDP). Overall, more emphasis is needed on improving performance and focusing on results and outcomes. In such an environment the private sector appetite for sectoral investments remains limited, with the major exception of telecommunications.

**28. Regional infrastructure integration and energy trade is set to be of increasing importance in the region.** The South Asia Region has enormous potential for mutually beneficial trade in energy and energy resources. The size and dispersion of its hydropower and natural gas resources, the highly differentiated size of its economies and associated energy demand levels and growth suggest significant benefits from greater integration. The region's proximity to countries in Central Asia and the Middle East with huge proven reserves of natural gas also provides excellent opportunities for import of gas at competitive prices to meet growing needs in the power sector. As intra-regional trade and trade with close neighbors expand, there will be an increasing need to develop new and improve existing transport corridors and bolster the efficiency of transport and trade facilitation services. However, in contrast to the other regions, movement on the regional integration agenda in infrastructure in South Asia has been slow, mirroring the historic slow growth and low level of intra-regional trade in general.

### **III. THE BANK'S INFRASTRUCTURE BUSINESS**

**29.** The Bank's infrastructure business has changed significantly over the last decade. Typically the mainstay of Bank lending (at about 40% of overall lending), infrastructure lending dropped to about 21% of lending in 1999. The Infrastructure Action Plan was designed to re-position the Bank's infrastructure business, and has made strong progress in this direction, by significantly increasing lending, supported by non-lending services and increased partnering. Over the next several years, it is expected that the Bank's infrastructure business will continue to increase and return to previous levels of about 40% of overall lending. This will reflect growth in all regions and will emphasize the expansion of certain sector areas (e.g. investments related to clean energy and energy access), and certain client segments (e.g. regional and sub-national), and revitalizing public and private investment for infrastructure.

#### ***Infrastructure Action Plan (IAP)***

**30. Under the IAP the Bank has made good progress in rebuilding its support for infrastructure.** The Bank began the process of systematically re-engaging in supporting

infrastructure activities through the launch of the *Infrastructure Action Plan* in July 2003. Among key stakeholders, clients, shareholders and management, there was “an increased consensus...that the Bank Group needs to increase its engagement in infrastructure in light of growing investment needs, withdrawal of private investors, and growing recognition that the MDGs can only be met in a multi-sectoral way”<sup>4</sup>. The Action Plan was developed based on lessons learned over the past decades on both the public and private provision of infrastructure, and has positioned the Bank to engage along the entire public-private spectrum for both infrastructure financing and service provision. As part of the Action Plan, the Bank Group has sent clear signals to staff, clients and all development partners on the centrality of infrastructure to the development agenda.

**31. Client demand for infrastructure has been supported through increased Bank financing while at the same time quality has remained consistently high.** Since FY03, the Bank has had an approximate \$1 billion increase per year in lending for infrastructure (see Box 4). Lending in all sectors and themes has grown significantly in the past two years (see Annex B). All regions are also on an upward trend, although within this trend there has been some fluctuation. For example, the Africa region began to increase deliverables in FY04 yet declined somewhat in FY05 because some projects ready for approval needed to be postponed due to IDA-13 constraints. This decline is expected to be reversed next year with the new IDA-14 allocation which strongly supports infrastructure. Similarly, the East Asia region experienced notable growth in lending in FY04, which is expected to continue in FY06 with the approval of selected projects that had experienced minor delays. In addition, while the integrity of the Bank’s safeguards has been maintained, processing costs and time for project preparation have decreased significantly since FY03. Average preparation costs per project went from an average of \$383,000 per project in FY03 to \$366,000 in FY05, and average time from Project Concept Document to Board went from 22.5 months per project in FY03 to 16.9 months per project in FY05. During this period of rapid increases in Bank lending, quality has remained high. At the end of FY05, the percentage of infrastructure commitments at risk was 9.5%, which is well below the Bank average of 13.5%. Furthermore, the disbursement ratio for the active infrastructure investment portfolio (ratio of disbursements to opening undisbursed amount) went up from 18.1% at exit FY03 to 20.5% at exit FY05, showing an improvement in the flow of funds to clients.

**32. At the same time, both MIGA and IFC’s infrastructure businesses have been growing.** In FY05 MIGA’s gross new portfolio exposure was \$5.6 billion, and infrastructure has seen a steady increase in its share of the overall portfolio growing from 29% in FY01 to 38% in FY05. The IFC’s infrastructure business (excluding oil, gas and mining) committed approximately \$800 million in FY05 (out of a total of \$5.4 billion), up from \$722 million in FY02; profitability of the business has turned around significantly from FY02, the year of the Argentina crisis, with a current return on capital employed of over 30%. At the end of FY05, the outstanding cumulative commitments of IFC in infrastructure business were approximately \$4 billion (a 21% increase from FY02), representing approximately 21% of IFC’s total commitment.

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<sup>4</sup> Infrastructure Action Plan, July 2003. Detailed progress reports have been provided since the launch of the Action Plan, including in the Infrastructure Development Committee Paper 2003, in a Board Update on the Action Plan in April 2004, and in the Infrastructure Development Committee Paper 2004.

<b>Box 4: Infrastructure Annual Lending Commitments: FY02-FY05</b>				
<b>(\$ million)</b>				
	<b>FY02</b>	<b>FY03</b>	<b>FY04</b>	<b>FY05</b>
<b>MAJOR SECTOR</b>				
Energy and Mining	2,128	1,206	1,042	1,874
ICT	156	115	97	191
Transportation	2,392	2,731	3,819	3,138
Water and Sanitation	503	1,295	1,493	1,781
Other (Flood Protection, Solid Waste)	54	93	138	426
<b>TOTAL</b>	<b>5,232</b>	<b>5,440</b>	<b>6,589</b>	<b>7,411</b>
<b>REGION</b>				
AFR	1,254	1,363	1,560	1,317*
EAP	905	1,460	1,735	1,467
ECA	434	367	864	1,584
LCR	978	689	833	1,303
MNA	225	291	731	300
SAR	1,436	1,270	866	1,440
<b>TOTAL</b>	<b>5,232</b>	<b>5,440</b>	<b>6,589</b>	<b>7,411</b>
<b>PRODUCT LINE</b>				
IBRD	2,502	3,148	3,595	4,359
IDA	2,563	2,161	2,832	2,559
GEF	34	53	90	67
Guarantees	115	75	59	410
Special Financing	19	2	12	16
<b>TOTAL</b>	<b>5,232</b>	<b>5,440</b>	<b>6,589</b>	<b>7,411</b>
<b>TOTAL</b>				
<b>World Bank Total</b>	<b>20,054</b>	<b>18,909</b>	<b>20,493</b>	<b>22,604</b>
<b>INF as % of WB Total</b>	<b>26%</b>	<b>29%</b>	<b>32%</b>	<b>33%</b>
<b>MAJOR THEME</b>				
<b>Urban Development</b>	<b>1,492</b>	<b>1,594</b>	<b>1,369</b>	<b>1,872</b>

\* Due to IDA-13 constraints, an additional \$370 million in commitments (not reflected in the table) though ready for delivery in FY05 will be financed instead under IDA-14.

**33. During this period, approaches to supporting infrastructure service delivery have broadened.** Traditionally, nearly all of the Bank’s financial support for infrastructure has been provided through investment lending and reconstruction efforts (see Box 5). Recently, however, there has been an expansion in the variety of instruments which support infrastructure investment. The Bank’s infrastructure business, which has traditionally included a significant amount of multi-sectoral lending—much of which supported rural infrastructure—is now expanding into newer multi-sectoral lines of business such as trade and transport facilitation, housing services for the poor, integrated urban poverty reduction, and integrated local economic development. Indeed, infrastructure has been very successful at integrating other sectors within its operations, such as incorporating gender needs into transport projects, as well as assimilating infrastructure within the operations of other sectors (see components of infrastructure commitments in Annex B). Infrastructure’s presence in development policy lending (DPLs) is also more evident (e.g. Brazil housing DPL and Morocco DPL). PRSCs, previously more the domain of governance and the social sectors, are increasingly including infrastructure sectors (e.g. Benin in which the PRSC was the vehicle for creating harmonized water supply programs agreed by all donors), as well as in innovative instrument applications such as SWAPs (road sectors in Ethiopia, Chad and Poland) and horizontal APLs (for municipal development operations in Latin America and the Energy Community of South East Europe). In addition, the use of guarantees has increased significantly, likely spurred by changes

in internal accounting practices.<sup>5</sup> Since the instrument was introduced in 1990, the Bank delivered 1 to 2 guarantees per year; in FY05 seven guarantees were delivered totaling \$410 million (compared to \$59 million in FY04).

**Box 5: Natural Disasters and Infrastructure Reconstruction Efforts**

During the 1990s, the cumulative loss of economic assets due to natural disasters is estimated at 2.5% of 2000 GDP for China, 5.2% for Bangladesh, and 15.6% for Nicaragua. This loss includes network infrastructure (e.g. bridges, power transmission lines, pipelines, etc.) not engineered to withstand the impacts of earthquakes and floods. Most visibly, building infrastructure is vulnerable. The two major earthquakes in Turkey in 1999 damaged some 23,400 buildings. Some 16,400 of these, encompassing 93,000 housing units and 15,000 small business units, collapsed or were heavily damaged. The Bank has contributed significantly to disaster recovery efforts across the developing world including nearly a billion dollars for Asian tsunami recovery, reconstruction following the Gujarat earthquake in India (\$443 million), Hurricane Mitch reconstruction in Honduras (\$200 million), Marmara earthquake reconstruction in Turkey (\$505 million), and flood recovery in Mozambique (\$30 million). Besides providing assistance for disaster recovery efforts in affected countries, the Bank is also promoting a proactive and strategic approach to managing natural hazard risk. The underlying principles of the approach are that both loss of life and the economic impact of disasters can be reduced by advance planning and investment. The Bank has published a report entitled, "Natural Disaster Hotspots: A Global Risk Analysis," that presents a global view of disaster risks associated with some major natural hazards—drought, floods, cyclones, earthquakes, volcanoes and landslides. The report identifies high-risk geographic regions so that development efforts can be better informed and designed to reduce disaster-related losses in the future. With this in view, the Bank is working with partners to mainstream hazard risk management approaches in the PRSPs and CASs of the countries prone to severe mortality and economic risks, to protect the gains of poverty reduction efforts.

**34. Rebuilding the country knowledge base has been a priority.** Analytic work and stand-alone policy advice has been a critical accompaniment to Bank lending. Bank spending on these non-lending products has remained stable in FY04 and FY05 at approximately \$19 million, which represents a 14% increase in spending relative to FY03. There also have been major efforts to pool funding with partners and to focus on high-return activities. Infrastructure analytical work has increasingly placed greater emphasis on cross-sectoral country-level infrastructure diagnostics and regional studies undertaken together with other donors, serving to deepen country and regional knowledge as well as further harmonization. The research agenda of the Bank has also been expanded to include a broader coverage of infrastructure issues.

**35. Over the past year the knowledge base has been strengthened by undertaking cross-sectoral infrastructure studies at both the regional and country levels.** In EAP, the World Bank, JBIC, and ADB co-produced a joint flagship study, "Connecting East Asia: A New Framework for Infrastructure", which clarifies policy and operational strategy issues and sets priorities for the next few years in the region. In LCR, a comprehensive flagship study, "Infrastructure in Latin America: Recent Developments and Key Challenges", has recently been completed and focuses attention on the regional progress made over the past 15 years and lessons learned. Both ECA and AFR have also completed drafts and background papers for flagship infrastructure studies to be published in the next year which will address data gaps and analyze the links between infrastructure and growth. The Recent Economic Developments in Infrastructure (REDIs), proposed in the IAP as a means to compile infrastructure performance indicators, take stock of cross-cutting economic and technical issues, and develop policy recommendations across all infrastructure sectors at the country level, have evolved into comprehensive country-level infrastructure reports. This cross-sectoral analytic work, such as that undertaken in Indonesia, the Philippines, and Colombia, is informing the infrastructure

<sup>5</sup> In 2004, the Bank relaxed IBRD country envelope for use of Bank guarantees, by increasing IBRD country envelopes by 75% of the guarantee volume, with a similar approach in IDA countries. For an update on IDA guarantees, see "Review of the IDA Guarantees Pilot Program", May 5, 2005 (IDA/SecM2005-0220).

development strategies of these countries. Additional studies are under preparation in Vietnam, Mongolia, Pacific Islands and in West Bank/Gaza, as well as an Integrated Water Management Policy Framework for Morocco. In addition, infrastructure-focused public expenditure reviews (PERs) have been conducted for Guatemala, Indonesia, Mexico and Paraguay.

**36. Partnering has continued to play an important role.** When speaking with one voice, development organizations can have a much stronger impact. There are many good examples of co-financing among the Bank, regional development banks, donors and other institutions such as the EU. This has been especially true with regional infrastructure projects which often require close collaboration given their complexity and scale (e.g. working with EBRD and EIB on the Energy Community of South East Europe). Policy and analytical work also benefits from donors working together to undertake studies, develop common policy platforms for strategic advice, and support capacity building, which helps to reduce overlap and duplication. As an example, the World Bank is currently working with the ADB on strategic advice in the Bangladesh power sector, where the organizations are jointly developing a common approach to sectoral priorities and rules of engagement. In Africa, model collaboration is taking place between the Bank and the AfDB in the water sector, with joint MDG assessments carried out in 12 agreed countries of focus, joint missions, co-financing of projects, learning exchanges, and potential staff exchanges. The Bank has also maintained a sustained partnership with the IADB for the design and financing of rural roads, road management decentralization, and urban transport programs in Peru. Furthermore, there are many instances of WB cooperation with the EU, especially in the ECA region, such as on supporting ICT development (including a current focus on broadband and supporting framework), and developing and implementing a series of trade and transportation facilitation projects in South East Europe. In addition, the Bank is sponsoring events to convene development partners to jointly develop global knowledge issues (e.g. results impact, governance, etc.). As an example, the April 2005 “Roundtable on Infrastructure” (a follow-up to a similar event in September 2003), brought together key infrastructure policy-makers from across major multilateral development organizations (the Regional Development Banks, the European Commission and NEPAD). Additionally, the infrastructure global programs and partnerships (GPPs), which are co-sponsored by the Bank and donors, serve to jointly invest in the creation and sharing of infrastructure knowledge, to align infrastructure policies and practices across the Bank and donors, and to mobilize funding in direct support of clients. The Bank currently administers 12 major GPPs on behalf of the donors, committing \$72 million (FY05) in client support (see Annex C).

### ***Infrastructure Business Going Forward***

**37. To respond to client demand for infrastructure, the Bank can continue to grow the infrastructure business at its present rate over the next 2-3 years.** The Bank has the potential to nearly double its FY03 lending by FY08; however, the increase in Bank Group support to infrastructure is still small relative to needs, pointing to the need for the institution to focus on leveraging outside financing. In addition to continuing to increase lending and leveraging going forward, the Bank will need to pay close attention to maintaining high quality and incorporating lessons learned from the past. In the medium-term, projections for evolution of the Bank’s infrastructure lending depend on client demand and country circumstances, and on IDA14 allocations in the case of IDA countries. Given these caveats, however, it is expected that the Bank could continue to grow its infrastructure business by up to \$1 billion each year for the next 2-3 years, to reach about \$10 billion per year taking the business back to a 40% share of total Bank business. For IFC and MIGA, the predictions are even more indicative given their transactions-based business model. In general, MIGA sees infrastructure (water, telecommunications, transport and power)

continuing as 30%-35% of their business and the IFC sees the potential to grow its business to up to \$1.1-\$1.2 billion by 2008, from \$598 million in FY05.

**38. Steady continued growth is expected from all regions and will reflect the diversity of challenges in each region.**

- ***In the Africa Region***, total lending should continue to be scaled-up under IDA-14 with a special emphasis on co-financing initiatives with other donors, such as the Africa Infrastructure Consortium (see Box 6). It is expected that transportation will continue to be the largest lending sector, but meeting the MDGs continues to require increased efforts on water and sanitation. In addition to investment lending and leverage, the program will feature implementing country-based programs (e.g. Ethiopia, Chad Road SWAPs) and broader use of PRSCs. In addition, major focus will be on achieving measurable outcomes.
- ***In the East Asia and Pacific Region***, lending is expected to continue to grow over the next three years and remain between 50%-60% of total regional lending. Drivers of the Bank's operations are rapid urbanization, increasing inequality, regional integration, and the diverse patterns of demand from different client segments. Given the large investment needs of the region, a particular focus will be on the development of mechanisms to revive and harness PPPs, especially in the Philippines and Indonesia.
- ***In the Eastern Europe and Central Asia Region***, the lending pipeline suggests continuing growth in infrastructure lending over the next few years both in absolute terms and as a percentage of overall lending within the region. There is significant borrowing interest on the part of many of the middle income countries—in particular: Turkey, Ukraine, Romania, Croatia, Azerbaijan and Poland—with interest ranging across the full spectrum of infrastructure activities. Interest on the part of IDA countries also remains strong with particular emphasis on energy and transportation. With the Kyoto Protocol coming into effect, there is increasing interest in activities that will allow carbon trading opportunities, especially in Russia and Ukraine.
- ***In the Latin America and the Caribbean Region***, the lending pipeline suggests maintaining the FY05 infrastructure lending level both in absolute terms and as a percentage of the overall lending within the region. There is significant borrowing interest ranging across the full spectrum of infrastructure activities as well as for transnational infrastructure projects. It is expected that there will be a further escalation of carbon trading activities in the region, with the Kyoto Protocol coming into effect
- ***In the Middle East and North Africa Region***, the lending pipeline suggests strong growth in the energy sector. Strong potential also exists in the urban sectors for countries where the needs and potential impact are large (e.g. Iran, Egypt, Algeria and Iraq), and where there is some progress on sectoral issues such as decentralization, local economic development and housing (e.g. Jordan, Morocco). Following two years of strong lending (resulting in the second largest regional water

**Box 6: Collective Focus on Africa**

The Commission on Africa and Gleneagles summit emphasized the importance of investing in infrastructure in Sub-Saharan Africa. A major agreement of the summit was to set up an Africa Infrastructure Consortium. The New Partnership for Africa's Development (NEPAD), the African Development Bank, World Bank, European Commission, and bi-lateral donors will contribute resources for coordinated, African-led infrastructure initiatives at both the country level and for cross-border regional projects. While more precise objectives and procedures for the Consortium will be discussed at an inaugural meeting in October 2005, it is envisioned that its role will focus on aid effectiveness and improving coordination among donors, creating advocacy and awareness for scaling up efforts, developing better data and monitoring resources on the current state of service provision, and improving the capacity of local governments and service providers to increase overall impact of efforts. The Africa Infrastructure Consortium is a strong signal that donors recognize that maximizing aid effectiveness going forward will require increased donor harmonization and co-financing around country infrastructure programs geared to clear outcomes.

supply and sanitation supervision portfolio) the water supply and sanitation commitments are expected to remain relatively stable through FY08, with some fluctuation. Even though most of the countries in the region are middle income, there is demand for financing transport infrastructure.

- ***In the South Asia Region***, lending for infrastructure is expected to increase from about one-fourth to one-third of total regional lending volume over the coming years. This reflects strong growth in the urban sector where, for example, the Bank is supporting national reforms in India through engagement at both national and state levels to enhance the capacity of cities to improve the functioning of land markets, and develop their finances and services in a sustainable manner. The Bank is also in the process of rebuilding its business in the water and sanitation sector, through a small number of urban projects focused on service reliability, and demand-driven approaches for rural water supply. In transport, the Bank continues to build on a strong history of engagement in the roads sector, and is increasingly engaging in urban transport, ports and railways. In energy, while maintaining a focus on improving the performance of distribution utilities and expanding rural access, the Bank is looking to scale up its engagement in areas such as large-scale hydro, and low-carbon approaches to energy security. The Bank is also increasingly engaged in providing advisory and lending support on private participation in infrastructure, and on facilitation of regional integration, particularly for transport and energy.

**39. Going forward the Bank will develop and expand areas of emphasis within each sector.**

To respond to the emerging trends and changing needs in each region, the Bank plans to adjust sector priorities by expanding existing business lines and shifting to new areas of emphasis where appropriate. Overall, transport and energy/mining are expected to increase in the coming years; water supply and sanitation—where lending has already quadrupled since FY02—will continue to show steady progress in line with recommendations of the World Panel on Financing Water Infrastructure chaired by Mr. Camdessus; and re-emerging areas such as urban services/housing and newer areas such as clean energy are expected to increase. Specific implications for each sector include:

- ***Energy and Mining*** has concentrated on investments in electricity transmission, distribution, increasing access to modern energy fuels, energy efficiency, renewable energy, carbon finance as well as support for sector reform and sustainable mining. While these business lines will be sustained going forward, emerging global climate change concerns will demand an enlarged focus on renewable energy technologies, including re-engagement in large scale hydropower, rehabilitation of existing thermal and hydropower plants, facilitation of carbon finance transactions and support for regional trade that enables more effective use of hydropower and gas (see Box 7). For power generation, private financing—whether from local, regional or international investors—is preferred. Most governments can create a substantial role for private generators within their sector development strategies. Nonetheless, public support, in the form of IDA/IBRD guarantees and other forms of credit enhancement, will often be a critical component of private financing in generation, along with IFC and MIGA products. A strong public financing role, combined with Bank financing, may be also important for certain countries.
- ***Information and Communications Technology (ICT)*** has tended to focus on information technology, software development, media and broadcasting, postal services and telecommunications. These lines of business will be expanded, with particular focus on rural connectivity, and on harnessing productivity gain potential through broadband deployment for ICT applications in other sectors (including health, education, commerce and government) and for extreme conditions (e.g. post-conflict environments).
- ***Transport*** will retain its dominant role with business lines in roads and highways, public transportation and rural access as well as railways, aviation, ports, waterways and shipping. This will be increasingly complemented by initiatives focusing on transport's linkages with the

environment (urban transport), public health (road safety), social development (access), and competitiveness (transport and trade facilitation).

- **Urban** issues are becoming increasingly important given global demographic shifts, requiring an expansion of traditional business lines—that have focused on municipal finance and institutions—to a broader range of issues including urban transport and air pollution, multi-sectoral slum upgrading, land and housing markets, solid waste management, and micro credit. As a result of decentralization, engagement with clients will increasingly occur at the sub-national level.
- **Water Supply and Sanitation (WSS)** continues to expand its traditional focus on investment projects for utility water supply and sewerage services and rural WSS. A major objective is to increase the quantity and improve the impact of Bank-funded investments in basic sanitation and hygiene. Greater emphasis is being placed on delivering services in smaller towns, including the development of domestic private sector.

### **Box 7: Low Carbon Energy Development**

The Intergovernmental Panel on Climate Change has estimated that the earth has warmed by about 0.6°C over the past 100 years with most of the warming in the last 50 years directly attributable to human activity. Developing countries and especially the poor are the most vulnerable to the adverse effects of climate change. Climate change mitigation programs must focus on reducing inefficient uses of energy and fossil fuel consumption (particularly in urban transport). With nearly \$8 trillion in energy sector investments needed over the next 30 years in developing countries, the Bank Group’s strategy is to support a shift in the trajectory of investments towards climate friendly energy technologies. Consequently, the World Bank Group’s energy sector programs are:

- Promoting energy sector reform (including good governance, energy pricing policies, fossil fuel and transport subsidy reform, internalizing environmental externalities);
- Promoting sustainable transport systems and public transport reforms;
- Providing financing, including GEF grant resources and carbon financing, for market scale-up of climate-friendly energy production and use technologies, and associated capacity building:
  - Invested \$9 billion in energy efficiency and renewable energy between 1990 and 2005 – the largest investor among IFIs.
  - Committed in June 2004 to increasing lending for new renewable energy, including hydropower up to 10 MW per facility, and energy efficiency by 20% per year over the base-line, in addition to continuing to support investments in larger scale hydropower. The Bank Group met this commitment with new renewable energy and efficiency commitments reaching \$285 million in FY05, an increase of more than 20% over the baseline, along with larger scale hydropower commitments of \$465 million.
  - Committed to supporting efficient and clean fossil fuel use, including clean coal technologies, and fuel switching from coal to gas.

The recently concluded G8 Summit in Gleneagles recognized the shared and multiple interests of all countries in moving to a low carbon energy framework along with efforts to reduce poverty. The G8 committed to enhance private investment in, and transfer of clean energy technologies to, developing countries. They requested the Bank to lead a global effort to develop a framework for low carbon energy development, including investment and financing. The Bank will engage with other IFIs, member governments, private sector and other partners to accelerate adoption of cleaner, more efficient energy production and a more efficient use of energy that will, inter alia: assist developing countries to plan for a climate friendly investment path; build capacity for transfer, adoption and uptake of technologies; reduce gas flaring and venting; and mobilize financing from both international and domestic sources.

**40. Given the expected continued growth for the infrastructure business in each region and in traditional and new sector areas, staffing adjustments will be required over time.** Sector Boards will continue to monitor staff volumes, skills mix and ensure development of cutting edge talents by continuously adapting to meet demand. Since FY03, infrastructure staff increased significantly, with a net positive increase of 81 higher level staff, bringing total net staff to 514 at the

end of June 2005. New hires are expected going forward, with continued attention to aligning skills mix. In addition, multisectoral synergies will continue to be tapped by drawing on staff from other sectors.

**41. The Bank will increasingly work toward meeting differentiated client demand and expanding into new arenas.** Meeting needs at multiple levels of government—global, regional, sovereign, sub-sovereign and community levels—will be a critical factor to scale-up infrastructure support. The Bank will maintain a strong core business at sovereign and community levels while growing the global, regional, and sub-national businesses (see Box 8). Global support for “public good” issues and activities—in the form of both knowledge and lending—is increasingly needed. Even greater demand is evident for regional and multi-country activities and the Bank’s support for this type of product is expected to experience significant growth. This will often include large/complex projects (such as hydropower), which will require a continued supportive stance by shareholders and substantial resources, including dedicated technical capabilities. Finally, direct engagement with sub-national activities without sovereign support provides a major untapped market for the infrastructure development business and the Bank Group as a whole.

<b>Box 8: Potential Growth Areas for Infrastructure</b>		
<b>CLIENT DEMAND</b>	<b>CURRENT PORTFOLIO</b>	<b>AREAS FOR GROWTH</b>
<p><b>Global</b> <i>Investing knowledge and resources in global public goods</i></p>	<ul style="list-style-type: none"> <li>• Current focus on knowledge leadership through anchor work programs, and together with donors, through Global Programs and Partnerships (GPPs)</li> <li>• In FY05, invested \$8.5 million for global knowledge agenda via GPPs</li> </ul>	<p><b>MEDIUM GROWTH POTENTIAL</b></p> <ul style="list-style-type: none"> <li>• Responding to Global Climate Change (e.g. investment in renewable energy and energy efficient technologies), as well as other emerging global public good agendas</li> <li>• Expansion of results measurement agenda and other global public good knowledge products</li> </ul>
<p><b>Regional</b> <i>Responding via multi-country interventions where there are trans-boundary economic and/or social benefits</i></p>	<ul style="list-style-type: none"> <li>• Since 1990, regional projects approved for infrastructure totaled \$1.3 billion, with significant growth in recent years</li> <li>• Operations in AFR (14 projects), ECA (6 projects), EAP (4 projects) and LCR (4 projects)</li> </ul>	<p><b>HIGH GROWTH POTENTIAL</b></p> <ul style="list-style-type: none"> <li>• Continued growth of AFR portfolio with estimated \$2 billion in pipeline for next 3 years</li> <li>• Expansion in other regions – e.g. South East Europe, Commonwealth of Independent States, the Caribbean</li> </ul>
<p><b>National</b> <i>Supporting clients at the country level via policy dialogue and reforms, major projects and country studies</i></p>	<ul style="list-style-type: none"> <li>• National lending and analytical services will continue to dominate the infrastructure portfolio at sustained levels of growth</li> </ul>	
<p><b>Sub-National</b> <i>Supporting the policy, capacity building and financing needs of sub-national entities (including states, provinces and other political subdivisions; infrastructure utilities; and development finance institutions)</i></p>	<ul style="list-style-type: none"> <li>• IBRD and IDA have a large number of lending and capacity building operations with sub-national clients, always with a sovereign guarantee</li> <li>• Growth is constrained in MICs by limits in willingness of some national governments to provide sovereign guarantee</li> <li>• IFC Municipal Fund, created in 2003, has financed four sub-national projects without sovereign guarantees. Several more under preparation</li> </ul>	<p><b>MEDIUM GROWTH POTENTIAL</b></p> <ul style="list-style-type: none"> <li>• This traditional line of business will continue to grow given urbanization trends</li> <li>• Fiscal, administrative and political decentralization reforms in many countries have created demand for policy, capacity building and financial support to sub-national entities</li> <li>• Growth potential for lending to sub-national entities without a sovereign guarantee relies on the development of a mechanism to exploit synergies more efficiently within the World Bank Group while not undermining financially any part of the Bank Group. While potential needs are large, growth will be constrained by time needed to build creditworthiness</li> </ul>
<p><b>Community</b> <i>Providing support for projects that are identified and implemented at the household, village and community levels with stakeholder participation</i></p>	<ul style="list-style-type: none"> <li>• Sustained demand expected with actions to enhance quality through improved collaboration with other sectors</li> </ul>	

## ***Meeting New Needs: Regional Projects and Sub-national Support***

**42. Regional projects have emerged as an important and high demand business for the infrastructure group.** Although still only a small portion of the Bank's total portfolio, there has been a rapid increase in demand from clients for regional/multi-country products, particularly in infrastructure sectors. Regional projects are suited to situations where there is potential to realize economies of scale across a group of smaller countries, where the required intervention is trans-boundary in nature (e.g. river basin management), and/or for interventions aimed at promoting trade and economic integration. To date, the greatest demand for regional projects has emerged from Africa, with some significant examples from other regions (e.g. electricity and trade/transport in South East Europe, and the potential for the Southern Cone energy ring and the Initiative for the Integration of South American Regional Infrastructure). While growth of this portfolio is restrained by natural and geographic characteristics, there remains considerable unexploited potential in other regions. To fully realize the potential growth, supportive measures will be required including earmarked funds (e.g. IDA14 annual provision for regional projects), adaptation of Bank instruments and implementation arrangements (e.g. procurement, disbursement) to multi-country circumstances, and institutional support for these often large and complex projects.

**43. Sub-national support will be important, as development responsibilities are shifting from national to sub-national levels in response to decentralization.** In many of our client countries, decentralization of administrative responsibilities is proceeding at a rapid pace. Decentralization is increasingly motivated by a recognition in central governments that pushing decision-making authority as well as accountability for basic public services to lower levels tends to improve sustainability of outcomes as local stakeholders would have a much bigger role in the decision-making, implementation and monitoring process. This in turn contributes to improving the investment climate (and other key ingredients on the sustainable growth agenda) where it matters most, namely on the ground. Examples include devolving responsibilities for basic infrastructure services to local governments which play an essential role in implementing network infrastructure in many sectors and in delivering services. In many cases, however, central governments have not fully conferred adequate fiscal autonomy and implemented a stable resource transfer framework to meet sub-national needs. As such, these sub-nationals are often not adequately equipped to take on the responsibilities being shifted to them as part of the decentralization process. With many sub-national entities lacking adequate technical, institutional and credit capacity, there is a need for capacity building assistance to help them achieve standards of administrative efficiency and financial transparency. This will facilitate a credit quality acceptable to financiers and foster an environment in which the World Bank Group can provide further policy support on the overall decentralization framework.

**44. Many of the Bank's middle-income country (MIC) clients are seeking World Bank Group support at the sub-national level.** The support sought seeks to help the sovereign wean sub-nationals off their dependence on sovereign guarantees, and mobilize domestic capital markets in response to the needs of sub-nationals. Some multilaterals, such as the EBRD and AfDB are providing financing to sub-nationals without sovereign guarantees. The Municipal Fund, a joint initiative of the IFC and World Bank, has since inception in 2003, established the legal basis for IFC lending to sub-nationals without a sovereign guarantee, and has now completed four operations, with several more under preparation.

**45. Scale-up of World Bank Group activities through an approach that further integrates across the World Bank Group financing, policy advice and capacity building for sub-national development is being evaluated.** Given the policy and infrastructure development needs at the sub-

national level, an integrated Bank Group approach could help support a sustainable decentralization process, the quality of local fiscal expenditures, and sound infrastructure development. The key underpinnings of this approach would be to:

- Achieve development impact by building sub-national policy frameworks, institutions and processes that facilitate decentralization and assist sub-nationals to achieve creditworthiness to meet investment needs;
- Offer World Bank Group financial products seamlessly to sub-national clients, particularly local currency and guarantees; and
- Efficiently utilize IBRD and IFC capital, and protect IBRD's financial standing and integrity consistent with the Articles.

**46. Several institutional and stakeholder considerations need to be balanced in designing an approach to sub-national support.** Part I and Part II shareholders have indicated the need to pursue increased World Bank Group engagement at the sub-national level that is effective and financially efficient while not undermining the financial standing of any part of the World Bank Group. Ensuring that this approach does not bring the Bank Group into competition with the private sector is important. There are also significant issues associated with managing sovereign contingent liabilities vis-à-vis sub-nationals, and the need for local currency financing as most sub-nationals cannot manage foreign exchange risk or even legally incur foreign currency liabilities. The nature of consultation with the sovereign for Bank Group engagement in this area needs to be considered more systematically. Finally, more work needs to be conducted on assessing client demand from various potential segments, and there are risk management, legal, accounting and organizational issues to be evaluated. Consultations with stakeholders and technical due-diligence will be intensified over the next few months, and an Approach Paper that outlines the options considered, possible choices, and outcomes of the technical evaluation is planned for Board review by the end of 2005.

#### **IV. UNLOCKING PUBLIC AND PRIVATE INVESTMENT FOR INFRASTRUCTURE**

**47.** In many cases, governments are on the whole under-investing in infrastructure, private finance is not picking up the slack, and the Bank's contribution will not be able to fill the gap to address the tremendous needs in client countries. As the Bank's infrastructure business evolves, it is expected that more emphasis will need to be placed on assisting clients to improve efficiency of public expenditures as well as using Bank funds to leverage private capital flows and help clients manage risks.

##### ***Fiscal Dimensions of Expanding Public Investment in Infrastructure***

**48.** Expanding public investment in infrastructure, even if economically justified, will increase fiscal stresses in many countries. This is an important reason for the discussion that has recently emerged in policy-making circles on the issue of "fiscal space".

**49. Fiscal policy and public investment issues have been prominent in recent development policy discussions.** Following a period when fiscal adjustments were undertaken in the belief that cuts in public investment would be made up by private participation in infrastructure provision, many governments have recognized that the government budget will have to continue to shoulder the main responsibility for infrastructure development. Finding fiscal space in the budget for lumpy infrastructure projects is difficult for governments that are faced with fiscal deficit targets and other pressing claims on the budget, including those related to social sector spending. While there are difficult trade-offs to be made in allocating limited fiscal space across functions and sectors, there is little doubt about the importance of public investment in infrastructure for growth and MDG

objectives. In this context, questions have been raised about the appropriate approach to a sustainable level of aggregate spending and for identifying priorities. The recent decision of G-8 countries to provide debt relief also brings with it the expectation of guidance on how fiscal space should be allocated to maximize growth and MDG achievement.

**50. The IMF recently reviewed the scope for governments to create fiscal space for public investment while safeguarding macroeconomic stability.** In response to concerns about low levels of public and private investment, the IMF reviewed three aspects of fiscal policy as it affected public investment: (i) whether the conventional focus on overall fiscal balance and gross public debt unduly constrained a government from financing public investments, (ii) the appropriate coverage of public enterprises in the fiscal indicators and targets, and (iii) the fiscal implications and treatment of PPPs in debt sustainability analysis. While preferring the overall fiscal balance as the key concept for fiscal analysis, the IMF recommended that the current balance be monitored as a complementary indicator, and proposed a framework to evaluate the options for increased public investment in infrastructure. Pilot application of the framework to eight countries was undertaken in 2004 with results reported in April 2005. Most of the pilot countries were either judged to have high debt levels or to be fiscally vulnerable and/or to be committed to a fiscal adjustment so that a relaxation of the fiscal balance target, to permit higher public investment, was not advisable. While acknowledging the sizeable infrastructure needs in these countries, the IMF concluded that higher levels of public investments in infrastructure would have to be largely accommodated within existing fiscal deficit limits. For the pilot countries in general, the IMF recommended that “fiscal space” be found by increasing public savings through expenditure re-prioritization and, where appropriate, additional revenue mobilization. The IMF review also underlined the need for governments to strengthen budget systems and institutional frameworks, both for effective expenditure prioritization and to improve the quality and efficiency of public investment. The review of PPPs concluded that, if appropriately structured, they offered some scope to increase infrastructure investment. However, the institutional requirements for successful PPPs were demanding, requiring adequate risk transfer to the private sector, incentive-based regulation, clear legislation, appropriate transparency and disclosure, and good governance.

**51. While acknowledging the continued importance of macroeconomic stability, the World Bank considers it important for fiscal policy design to be adapted to support investments necessary for long term growth.** In achieving fiscal targets, governments have to pay attention to the composition of the budget to ensure that current spending decisions favorably impact on long term growth and the net worth of government. The sharp decline in public investments during many fiscal adjustment episodes underlines the need for proactive measures to protect critical public investments. Since a fiscal deficit target that is achieved by unduly sacrificing investments can undermine both growth and solvency, greater attention to public expenditure in the design of fiscal policy is necessary. This fact is recognized by the IMF review which noted the need for the World Bank to take the lead in exploring the growth implications of public investments and to undertake further work on how countries can improve the composition of spending. Evidence of a strong potential contribution of specific public infrastructure investments to growth could justify increasing the deficit target to create fiscal space for investments leading to higher growth rates and more sustainable public debt dynamics over the medium term, in situations where the higher deficit remained financeable.

**52. The Bank is expanding its public expenditure advice to governments, building on and leveraging its ongoing work on public expenditure reviews and country specific analysis of constraints to growth.** The best way to find fiscal space for public investment is to eliminate waste and improve technical efficiency in public expenditure. Efforts to control corruption in procurement and in contracting would improve operational efficiency and yield substantial fiscal savings. Secondly, periodic public expenditure reviews undertaken as part of the budget process would help

identify programs and projects that do not serve key policy objectives, allowing governments to find fiscal space for high value programs at the expense of redundant or inefficient programs. Thirdly, supplementing expenditure on maintenance of public assets is often a high return expenditure that is typically neglected, resulting in premature demands for high cost new investments or expensive rehabilitation. The Bank intends to develop guidelines on appropriate levels of expenditure on maintenance for different infrastructure assets. In addition, recommendations for replacement rules for depreciating assets would enable governments to improve the durability of assets that contribute to growth. Finally, where government tax effort is low, fiscal space can be enhanced through improvements in administrative efficiency and the broadening of the tax base, complementing and enhancing improvements to composition and efficiency of expenditure.

**53. The Bank has also launched an analytical effort to estimate the contribution of the composition of public expenditure to economic growth.** How countries can improve their growth prospects by increasing public investment in physical and human capital will depend in part on how different kinds of public expenditure affect growth at different stages of economic development. The return to infrastructure investment is likely to be much higher where initial stocks are low and other conditions for growth are supportive. Policy advice on public expenditure to a post-conflict country would differ in substance from a stable but stagnant economy because of differences in initial conditions (including initial infrastructure endowments), and the nature of constraints to growth and institutional capabilities of the public and private sectors. The Bank is investing in building a stronger analytical basis for advice on growth promoting public spending to countries, and taking account of their initial conditions.

**54. Budgetary institutions have to be strengthened if governments are to develop the capability to plan for and make effective use of any fiscal space.** When governments adopt a medium to long term perspective to policy and budget formulation, they are less likely to make sub-optimal decisions driven by an annual deficit target rule. They are also better equipped to assess the medium-term costs and benefits of alternative spending choices, including rigidities created by entitlement programs, and the reforms needed in these programs to create additional fiscal space for investment. The Bank has been supporting efforts by a large number of countries to adopt the medium term expenditure framework. Progress on this is slow but sustained and encouraging. Country commitment to institutional reform is a key factor in success. Another contributing factor is coordinated technical support. Following a review of Bank and IMF coordination on public expenditure issues in 2003, the Bank, together with other development partners, has strengthened its approach to improving public financial management that relies on country led reform, coordinated donor technical assistance, and periodic indicator-based assessment of the performance of the budget system. The Bank intends to combine and supplement such broad coordinated efforts to improve budget management with specific initiatives to identify and disseminate good practice in public investment project evaluation and implementation. In addition, the Bank expects to review and provide guidance on approaches and institutional requirements of PPPs and other initiatives to expand the range of financing and risk sharing arrangements available to support infrastructure development.

### ***Scaling-up Private Funding via Better Leveraging***

**55. As investor demand has shifted, the Bank has adapted its strategies to continue to encourage private participation in infrastructure.** The Bank Group has continued to seek innovative ways to engage the private sector in infrastructure service delivery in developing countries, including direct measures to attract private financing as well as advisory services and technical assistance for improving legal regulatory and institutional frameworks to make infrastructure more attractive to private participants. Designing and encouraging PPPs, which join the

forces of public funds and private finance, will be an important part of the agenda going forward. Bringing in private sector expertise for management and operation will also be critical to improve the efficiency of infrastructure service delivery. For example, as the appetite for direct investment by large international private operators in water utilities has declined, a parallel effort to scale up private management of these utilities has increased. The Bank is also attempting to support other efforts to encourage private sector participation, especially those that have not been viewed as “traditional” investments. Equity participation from emerging market investors (“south-south” investment) as well as local resource mobilization have been increasing in recent years as a percentage of total infrastructure investments and are a new source of capital which should be increasingly tapped. Other areas will also be considered, such as addressing the issues of distressed infrastructure contracts, and stepping up assistance to clients for infrastructure project preparation (such as in the IFC-managed DevCo facility, and the Bank’s growing cooperation in this area with NEPAD and SADC in Africa). Finally, the Bank is continuing its efforts to reach out to the private sector to hear their suggestions firsthand, such as the Bank-sponsored Private Operators’ Roundtables for Energy and Water and the Bank- and donor- sponsored conference on private participation in infrastructure in Sub-Saharan Africa in June 2005.

**56. Increased efforts to employ risk mitigation solutions can help mobilize larger private capital flows.**

Project experiences of the past decade have demonstrated that private investment will flow most easily into sectors and countries that have created effective regulatory frameworks, where full cost recovery is feasible, and that have convertible currency revenues (e.g. mobile phone systems, ports, international airports, export-linked freight railways). Where these features do not exist, countries will face much more difficulty raising private capital without appropriate risk mitigation (e.g. many toll roads, power, water supply and sanitation projects). Many types of risks that often limit investment can be covered by World Bank, MIGA, and IFC products. While the Bank Group has used its risk mitigation instruments with increasing flexibility (see Box 9), it needs to further broaden and adapt them to meet the requirements of today’s private infrastructure investors, which are constantly changing as project financing structures evolve (i.e. PPPs). In addition, client demand for risk mitigation, such as involving long-term debt instruments in local currencies and supporting governments’ commitments to pay performance-based subsidies, is also evolving.

<b>Box 9: Peru Partial Risk Guarantee Facility</b>
<p>The \$200 million Partial Risk Guarantee Facility Project, approved by the World Bank’s Board in April 2005, will provide risk mitigation instruments for many of the country’s future infrastructure PPPs. The main objectives for establishing the facility include increasing private sector participation and financing in infrastructure projects, developing Peru’s local capital market and increasing investor access to local capital market project finance, and decreasing the cost and improving the terms of project finance debt. The Government of Peru has already identified a pipeline of 15 potentially eligible projects. Specific targets during the 5-year initial period of the facility include leveraging over \$500 million of new investment commitments and raising over \$300 million in private debt financing for eligible PPPs.</p>

**57. The role of leverage needs greater acknowledgment and better measurement.** Lending is only a part of the Bank’s support to infrastructure. In FY05, Bank lending for new infrastructure was \$7.4 billion while the total cost of these projects was \$24.5 billion. The Bank thus leveraged more than three times the amount of funds it committed. While much of this leveraged financing comes from the public sector (recipient governments, donor co-financing), the private sector also contributes significantly to projects supported by the Bank Group (see Box 10). Employing IBRD/IDA guarantees, in some cases together with IFC and MIGA, the Bank has leveraged \$11.6 billion in private capital via \$2.9 billion since 1990. An important step going forward will be to focus more attention on the total financing mobilized via Bank interventions, rather than solely on the Bank financial input.

<b>Box 10: Examples of Leverage from Recent WBG Transactions</b>						
<b>(\$ million)</b>						
<b>Country</b>	<b>Project</b>	<b>Priv. Cap. Mobilized</b>	<b>WB Loan/Credit</b>	<b>WB Guarantee</b>	<b>MIGA Guarantee</b>	<b>IFC Investment</b>
Mozambique/S Africa	S. African Regional Gas Project	\$512.0		\$30.0	\$72.0	\$18.5 (approx.)
West Africa	West African Gas Pipeline Project	\$590.0		\$50.0	\$75.0	
Romania	Power Distribution Privatization	\$142.6		\$76.7		EUR 170 M (approx.)
Lao PDR	Nam Theun Power 2	\$1,177.5	\$20.0	\$50.0	\$91.0	
Sierra Leone	Bumbuna Power	\$67.0	\$12.5	\$38.0		

**58. Delivering seamless WBG product offerings to clients with Bank Group teams has strong potential.** The variety of instruments offered in combination by IBRD/IDA, IFC, and MIGA can have a major leveraging effect for infrastructure development, thus making the Bank Group’s combined impact greater than what the individual organizations may have on their own. In order for the Bank Group to continue attracting the private sector to middle income markets, as well as bring new entrants to lesser developed “frontier” markets, the infrastructure family will need to be more responsive to operators’ and investors’ requests for combinations of financial instruments and technical assistance offered in a fully integrated manner. As part of this, the Bank Group can play the role of honest broker across governments, private participants, investors, and customers and provide global best practice and innovation at all levels.

**59. Better packaging of Bank Group instruments across the public-private spectrum is being demanded and will require improved internal coordination and cooperation.** There are many good examples at the project level to illustrate successful Bank Group collaboration. In the transport sector, the Bank and IFC participate regularly in review processes making fully consistent IFC’s proposed investment with Bank policy in the country, overall sector reform dialogue, and robustness of operations on technical and commercial grounds. Resulting from this process are transport investments in Panama, Pakistan and Argentina. Examples of successful collaboration in the power sector include the Kounoune power project in Senegal, and the joint IFC Bank power sector engagement in Ghana. Going forward, the IFC and Bank are continuously seeking additional joint opportunities for collaboration, e.g. in Nigeria, Rwanda and selected countries in LCR and EAP with other regions expected to follow.

**60. The Bank Group needs to move from a project-based approach to a country and sector-based approach based on joint Bank Group long-term planning and pipeline development.** To date, Bank Group collaboration at the project level has often developed out of unique circumstances rather than institutional incentives. In order to expand these opportunities, staff will need to engage in more systematic planning across organizations and focus more on joint long-term planning. Some of the most successful joint initiatives have involved institutional collaboration at the sector level (e.g. the energy sector) to enable an improved and coordinated dialogue with clients and smooth transition from purely public infrastructure to privately financed investments (see Box 11). Going forward, specific actions have been identified to improve Bank Group collaboration, including the possibility of developing a joint scorecard with common definitions and measures and highlighting successful cases and mechanisms for managing conflict of interest.

### **Box 11: Combining WBG Instruments: Phu My Power**

Over the past decade, the Bank Group has assisted the Government of Vietnam in its long-term strategy to promote private power development in a transparent and competitive manner. After the pure public financing of Phu My I, the Bank Group supported the first phase of the Phu My II power project as a public project, and provided technical assistance for the development of the second phase as a private sector BOT project. For this second phase, the Bank Group also provided a \$75 million IDA guarantee (with a counter guarantee from the Government) as the investment environment at that time required such risk mitigation to attract private sector participation. This project became the first infrastructure project to be implemented in the country by the private sector through a competitive bidding process. The Bank Group's support to sector reform through successive operations laid the foundation for further private participation. Following the success of Phu My II, MIGA was able to participate in Phu My III without a counter guarantee from the Government based on the knowledge that the Bank Group had engaged the Government in the implementation of a proper regulatory framework, decentralization of authority in investment decisions, and the drafting of a new Electricity Law. Key to the success of the evolution of the private financing of the power sector in Vietnam has been the coordinated approach and complementary use of Bank Group teams and instruments.

## **V. MANAGING FOR RESULTS**

**61.** As the Bank continues to focus on infrastructure service delivery, it will need to ramp up investments while at the same time supporting the creation of an environment conducive to sustaining these investments. The Bank has a rich experience to draw on and a comprehensive knowledge base, including from DEC and OED impact evaluation, to ensure continued high quality of lending and sustainability of projects. In all projects, but more critically in high-risk/high-reward programs, the Bank will pay particular attention to maintaining project quality including by incorporating the lessons learned from the past, ensuring that the Bank's standards for environmental, social, and technical aspects are met, and appropriately addressing governance issues. The Bank, together with partners, is also improving impact measurement to monitor that the ex-ante assessments of the benefits of interventions are indeed what are achieved at the project, country and global levels.

**62. Scaling up will require drawing the lessons learned from earlier infrastructure lending.** These lessons include: (i) ensuring that infrastructure projects represent well defined priorities within country strategies, solidly based on preparatory economic and sector work, with a design focusing on development impact; (ii) focusing on financial sustainability (including operations and maintenance), tariff policies, and affordability issues; (iii) managing expectations about private sector participation (recognizing that private sector solutions are not a panacea, ensuring that risk allocation is appropriate and dealing with political economy of private interventions); (iv) supporting public utilities to become more autonomous, accountable, and efficient, (v) providing systematic attention to environmental and social costs and benefits of projects, (vi) consulting with domestic stakeholders and international NGOs; (vii) paying attention not only to investments, but also ensuring that these are set in the context of sector reform and capacity building and that benefits reach the poorest; and (viii) focusing on transparency and corruption.

**63. The World Bank has made new efforts to develop and strengthen capacity in infrastructure to manage for development results.** Improved measurement of outputs and outcomes is essential to: (i) better assess performance, including impact on the poor (ii) report on progress toward well-defined outcomes; (iii) increase accountability and improve understanding of Bank's contribution to sector performance; and ultimately, to (iv) support policy advice and decision making. However implementation of this agenda is a long term and costly exercise that needs to include multiple stakeholder data sources (e.g. households/businesses/consumers, suppliers/operators,

governments). And it will require strengthening of national statistical capacity, and improved collaboration with internal and external development partners to consolidate into a uniform database.

**64. The immediate challenge for improved results management across all sectors is the building up of a set of reliable indicators.** These indicators will focus on performance and measuring policy dimensions of infrastructure service delivery such as access, quality, affordability, efficiency and financial sustainability. Indicators will be required at three levels: (i) *global* or sector-wide indicators are required for overall sector monitoring, benchmarking and corporate decision making; (ii) *country/local* or sector policy indicators are needed to monitor sector progress in specific policy areas and to enable the quantification of infrastructure's contribution to development progress; and finally, (iii) *project* level indicators will be needed to understand and quantify the value of the Bank's intervention.

**65. Across the sectors, action is underway to conceptualize, implement, mainstream and sustain their sector specific results measurement agenda.** Each sector has embarked on a program to build needed data (see Annex D). This involves, to varying extents, the following four activities:

- **Conceptualization.** Agree on measurement needs and/or list of indicators. Define (and refine) specific indicators and their estimation methodologies
- **Implementation.** Improve the quality and consistency of data, and facilitate 'field collection' of data. Improve existing data gathering instruments, develop and test survey methodologies and provide a robust baseline for key indicators, as necessary.
- **Internal mainstreaming.** Collaborate with regions to prepare analytical products (REDI, PER, etc.) and core diagnostics (CAS, CEM, etc.) which present and apply indicators across the agreed dimensions of performance. Promote mainstreaming of results measurement through effective project monitoring and evaluation.
- **Sustainability.** Identify financing sources, foster demand and use of indicators, and increasingly leverage work with client countries and the international community.

**66. Measuring impact is a collective challenge and responsibility.** While many initiatives have been launched within the Bank, among various donors, and within countries themselves, every effort is being made to join forces across development partners to work in concert on this agenda. The results agenda should be viewed as a knowledge public good, which ideally should be financed by pooled resources, developed for common purposes and utilized by all. The Bank has begun discussions on this agenda with the multilateral development banks and other multilateral financiers (e.g. the EU), as well as bilateral donors, and a joint effort across multiple parties is expected to be launched in the near future.

## VI. CONCLUSION

**67.** Developing countries have enormous gaps in their infrastructure, which threatens growth and the achievement of social and other broad development goals. Addressing this shortfall will be key to laying the foundation for development for the next generation. As developing countries face the challenge of filling these gaps, the Bank faces the challenge of rebuilding its lending and non-lending support, and increasing its leverage to reverse the declines in infrastructure support experienced over the past decade. This progress report demonstrates that the Bank has made good progress towards meeting this challenge.

**68.** Going forward, several concrete steps will be undertaken to continue the course of scaling up support for infrastructure in client countries. Programs in each region will continue to expand in response to client demand paying continued attention to lessons learned from the past and project

quality, including meeting all Bank standards, especially for large/complex projects. Projects with a regional focus are expected to increase in importance, and the Bank Group will look to expanding the participation of the private sector, including via PPPs, to augment the leverage of the institution. Given the international emphasis on Africa, the Bank will engage directly through the Africa Infrastructure Consortium to scale up support to this region.

**69.** The Bank will continue to innovate to make our instruments and approaches client friendly. As part of this effort, a proposal for how the Bank Group might proceed with further sub-sovereign engagement will be discussed with the Board of Directors in the coming months. An interim progress report on Output-Based Aid will be shared with the Board of Directors in the fall, followed by a review of OBA in conjunction with the IDA14 Mid-Term Review. In addition, a progress report on the Bank's work on fiscal space for growth will be shared with the Development Committee at the Spring Meetings in 2006.

**70.** The Bank will focus on global challenges, more closely integrating energy access programs with the low-carbon agenda. Additionally, there will be a major step up in the results agenda, including an effort to harmonize work with other IFIs. A forum for donors will be convened in the coming months to discuss global knowledge issues, including the infrastructure results agenda, as well as alignment of the infrastructure global programs.

## ANNEX A: OUTPUT BASED AID (OBA)

**1. OBA is a strategy for supporting the delivery of basic services where policy concerns justify the use of *explicit, performance-based subsidies* to complement or replace user fees.**

Limited access to basic infrastructure services in developing countries results from a combination of the consumer's inability to pay for these services as well as a service delivery gap. Output-Based Aid (OBA) can help fill the affordability/service delivery gap. OBA subsidies enable greater transparency of the use of funds because they are explicit, and support a specific service. They can also be targeted to specific consumers. Thus there is a greater probability that public funds reach intended beneficiaries.

**2. At the core of the OBA approach is the contracting out of service provision to a third party – typically a private operator, but also possibly public service providers, CBOs, and NGOs – with payment tied to actual service delivery of stated “outputs.”** Providers are paid for the most part *after* the delivery of specified outputs, placing the risk with those best able to bear it: the providers. OBA subsidies serve as an additional source of revenue for service providers and investors – helping to close the gap between the consumer's ability to pay and cost recovery tariffs, or in other instances helping to mitigate costs of externalities (e.g. environmental costs, public good benefits, etc). Multilateral agency involvement, off-shore and escrow accounts, and payment guarantees may also be needed to provide comfort to operators and help leverage private financing and technical know-how.

**3. Many lessons have been learned from the over 50 projects currently in the World Bank portfolio that involve OBA approaches.** The current projects are at various stages of development, ranging from initial design to service delivered and subsidy disbursed, and cover all regions as well as most of the infrastructure sectors and the health sector. The main lessons learned are that (i) OBA projects can be done and can be applied in a wide variety of settings, but more analysis is needed to the overall benefits of certain approaches; (ii) thus far one-off connection subsidies have been the most common type of OBA approach, but transition tariffs are another possibility being explored with some projects; (iii) clients have been creative and wish to expand the core concept of OBA to include on-going subsidies for life-line consumption and incumbent operators; (iv) most OBA schemes to date have been relatively small in scale, although they can subsequently be scaled-up if initially successful (e.g. the Guatemalan energy sector has earmarked a subsidy fund of approximately USD 150 million to help connect rural customers to an existing grid through an OBA arrangement); and (v) the preparation and implementation of an OBA project in the Bank often has high transaction costs for task managers, but this most likely will go down as the approaches become more mainstreamed.

**4. In most cases where initial results are in, efficiencies on the part of the service provider and related value for money for users are being demonstrated.** Many of the initial results have been positive with the Bank's existing OBA water and sanitation schemes (approximately 40% of total portfolio) – mostly connection subsidies (see Box A-1). In energy, OBA schemes have led to innovative ways in which to reach the poor by attracting private providers into rural and isolated areas where otherwise they have been reluctant to venture. Universal service funds in the ICT sector and output and performance-based road contracts (e.g. Performance-based Management and Maintenance of Road Networks contracts) in transport have helped to mitigate the isolation of the rural poor. Voucher schemes in health are increasingly popular demand-side subsidy schemes. An overall assessment on the effectiveness of OBA in various sectors is still ongoing, however.

**5. As can be seen by the number of OBA projects being initiated and implemented in the Bank, OBA approaches are broadly consistent with current Bank procedures and policies.** Key lessons learned to date demonstrate the need to be flexible in the application of OBA approaches, and the importance of project design that fits within country and sector context. For example, limited access to financing on the part of local private sector providers may require that some portion of the payment be made *before* the delivery of outputs. In order to provide more background to operational staff, a joint guidance note on structuring OBA approaches in Bank operations has recently been prepared by the infrastructure anchor and OPCS.

**Box A-1: Targeting subsidies in two OBA water schemes: Cambodia and Paraguay**

In a water and sanitation project in provincial and peri-urban areas of Cambodia, it was decided that OBA subsidies would be targeted directly to individual households: poor households deemed eligible would receive a connection (from a competitively selected private operator) that would be funded through a \$3.1 million grant from IDA. Once four pilot OBA towns were identified, a household survey was developed within the communities to collect data, and village representatives and commune council members determined poverty criteria. Based on these criteria and the results of the survey, the communities themselves identified the poor households that would receive the subsidy with an independent consultant later verifying the selection. Of the 13,000 households in the four towns, the 3,000 poorest households would receive a subsidized connection.

An OBA project in Paraguay relied on *aguateros* (small-scale water entrepreneurs) and local construction companies to provide water services to poor rural communities. The providers, selected through a competitive process, would receive part of their payment from users and the other part from a World Bank–financed subsidy fund (approximately \$1 million in subsidies thus far). In the Paraguay project, instead of individual households, un-served rural areas and small towns where most residents are poor were selected to receive the subsidies. In addition, the very poorest customers were given the option to provide labor in digging trenches as part of their payment to the service provider.

Both the Cambodia and Paraguay OBA schemes are being replicated in their respective countries. The Cambodia project is at early stages, with the water expected to be flowing through the taps by the end of this year. Even still, the scheme has attracted much attention with effective leveraging of private finance, and thus several new batches of OBA towns are being designed. Similar schemes are being considered elsewhere in South East Asia. In the case of Paraguay, the first four systems are now in operation. The response from the communities has been generally positive thanks to the rapid progress from concept to construction. The contract for the second set of three systems was awarded in August 2004, and a third OBA arrangement was awarded in December 2004.

**6. The Global Partnership on Output-Based Aid (GPOBA) has been set up to mainstream OBA-approaches within the Bank and other IFIs.** GPOBA is a multi-donor trust fund established in January 2003 by the United Kingdom’s Department for International Development (DFID) and the World Bank. Its purpose is to fund, demonstrate and document Output-Based Aid approaches to support the sustainable delivery of basic services to those least able to afford them and to those without access to such services. Through the piloting of subsidy payment schemes with secured funding (via grant agreements with GPOBA) it aims to significantly scale up OBA approaches in the Bank and elsewhere. Currently, GPOBA’s focus sectors include water, sanitation, energy, telecommunications and transport. Health and education projects have also been explored. GPOBA has funded over 30 projects to date.

## ANNEX B: FY05 BANK LENDING DELIVERABLES FOR INFRASTRUCTURE BY SECTOR

<b>Energy and Mining Projects Approved in FY05 (IBRD/IDA, Guarantees, GEF, Special Financing)</b>									
	Region	Country	Project Name	Total WB loan/credit (\$ million)	% of which Energy and Mining	Energy and Mining Commitment (\$ million)			
<b>Energy-Dedicated</b>	<b>AFR</b>	Africa	3A-W Afr Gas Pipeline [IDA S/UP] (FY05)	50.0	100%	50.0			
		Benin	BJ-Energy Srvc Delivery APL (FY05)	45.0	64%	28.8			
		Burkina Faso	BF-Power Sec Dev (FY05)	63.6	93%	59.1			
		Eritrea	ER-Power Distribution SIL (FY05)	50.0	90%	45.0			
		Kenya	KE-Energy Sec Recovery Prj (FY05)	80.0	97%	77.6			
		Nigeria	NG-Min Res Sustain Mgmt (FY05)	120.0	50%	60.0			
		Rwanda	RW-Urgent Electricity Rehab SIL (FY05)	25.0	95%	23.8			
		Senegal	SN-GEF Rural Areas Elec Srvc (FY05)	5.0	86%	4.3			
					SN-Elec Sec Efficiency Enhance (FY05)	15.7	92%	14.4	
					SN-Elec. Serv. for Rural Areas (FY05)	29.9	57%	17.0	
					SN-Elec Sec Efficiency Enhance GU (FY05)	7.2	100%	7.2	
				Sierra Leone	SL-Bumbuna Hydro Completion (FY05)	38.0	100%	38.0	
				Western Africa	3A-WAPP Phase 1 APL 1 (FY05)	40.0	100%	40.0	
			<b>EAP</b>	China	CN-GEF-Renewable Energy Scale-Up Program	40.2	50%	20.1	
				CN-Renewable Energy Scale-up Program	87.0	100%	87.0		
				CN-GEF-Heat Reform & Bldg Egy Eff.	18.0	32%	5.8		
				Lao People's Democratic	LA - Nam Theun 2 Power Project	42.0	100%	42.0	
			Timor-Leste	TP-POWER SECTOR PRIORITY INVESTMENTS	1.4	100%	1.4		
			Vietnam	VN-2nd Rural Energy	220.0	100%	220.0		
				VN-GEF-Rural Energy II	5.3	100%	5.3		
		<b>ECA</b>	Albania	ECSEE APL #2 (ALBANIA)	27.0	100%	27.0		
			Azerbaijan	POWER TRANSMISSION	48.0	100%	48.0		
			Bulgaria	ENRGY EFF (GEF)	10.0	45%	4.5		
			Croatia	RENEW ENERGY RES (GEF)	5.5	45%	2.5		
			Kosovo	ENERGY SECT TA 3	2.5	58%	1.5		
			Poland	ENERGY EFFICIENCY (GEF)	11.0	60%	6.6		
					COAL MINE CLOSURE	100.0	95%	95.0	
				Romania	ECSEE APL #1 (CRL)	84.3	100%	84.3	
					MINE CLOSURE, ENV & SOCIO-ECO REG (CRL)	120.0	48%	57.6	
					BANAT & DOBROGEA ELECT PRIV GUAR (CRL)	76.7	100%	76.7	
				Serbia and Montenegro	ECSEE APL #2 (SERBIA)	21.0	100%	21.0	
				Tajikistan	ENERGY LOSS REDUCTION	18.0	96%	17.3	
				Turkey	ECSEE APL #2 (TURKEY) (CRL)	66.0	100%	66.0	
			Ukraine	HYDROPOWER REHAB	106.0	81%	85.9		
		<b>LCR</b>	Dominican Republic	DO Power Sector Program Loan	150.0	100%	150.0		
		<b>MNA</b>	Tunisia	TN-ENERGY EFFICIENCY PROGRAM/INDUSTRIAL	8.5	65%	5.5		
	<b>Sub-Total</b>			<b>Energy and Mining Dedicated Commitments</b>			<b>1596.1</b>		
	<b>Non Energy-Dedicated</b>	<b>AFR</b>	Chad	TD-GEF Com Based Ecosys Mgmt (FY05)	6.0	8%	0.5		
				TD-Inst Reform Sup Credit SAL (FY05)	25.0	2%	0.5		
				Congo, Democratic Repu	CD-Emergen Living Conditions Impr (FY05)	82.0	15%	12.3	
				Congo, Republic of	CG-Econ Recovery Credit ERL (FY05)	30.0	15%	4.5	
				Mali	ML-Growth Supt SIL (FY05)	55.0	7%	3.9	
				Sierra Leone	SL-ERRG 4 (FY05)	15.0	25%	3.8	
					SL-Power & Water SIL (FY05)	35.0	44%	15.4	
					Zambia	ZM-Econ Mgmt & Growth SAC (FY05)	40.0	10%	4.0
						ZM-SEED (FY05)	28.2	15%	4.2
				<b>EAP</b>	China	CN-HUNAN URBAN DEV	172.0	5%	8.6
		Indonesia	ID-Initiatives for Local Govern. Reform		29.5	5%	1.5		
		<b>ECA</b>	Azerbaijan	PRSC	20.0	15%	3.0		
			Bulgaria	PAL 3	150.0	11%	16.5		
			Romania	PAL	150.0	20%	30.0		
			Russian Federation	KAZAN MUNICIPAL DEVT	125.0	10%	12.5		
			Serbia and Montenegro	SAC 2 (MONTENEGRO)	18.0	25%	4.5		
				SAC 2 (SERBIA)	45.0	25%	11.3		
		<b>LCR</b>	Chile	CL-Infrastructure for Territorial Dvlpmt	50.3	9%	4.5		
			Ecuador	EC Scnd. Fiscal Consolid & Comp. Growth	100.0	15%	15.0		
			Haiti	HT Economic Governance Reform Adj. Ope.	61.0	5%	3.1		
			Peru	PE (CRL2) Guarantee Facility	200.0	20%	40.0		
		<b>SAR</b>	Afghanistan	Emerg National Solidarity -Supplemental	28.0	20%	5.6		
			Bangladesh	Development Support Credit II	200.0	15%	30.0		
			Pakistan	Pakistan PRSC I	300.0	16%	48.0		
<b>Sub-Total</b>				<b>Energy and Mining Non-Dedicated Commitments</b>			<b>283.0</b>		
<b>Total</b>				<b>Energy and Mining</b>			<b>1879.1</b>		

**Transport Projects Approved in FY05  
(IBRD/IDA, Guarantees, GEF, Special Financing)**

	Region	Country	Project Name	Total WB loan/credit (\$ million)	% of which Transport	Transport Commitment (\$ million)	
<b>Transport-Dedicated</b>	AFR	Cape Verde	CV-Road Sec Supt SIL (FY05)	15.0	67%	10.1	
		Ethiopia	ET-Road Sec Dev Prgm Ph 2 Supl 2 (FY05)	160.9	90%	144.8	
		Guinea	GN-Natl Rural Infrastructure (FY05)	30.3	80%	24.2	
			Mozambique	MZ-Beira Railway SIL (FY05)	110.0	100%	110.0
			Uganda	UG-Road Dev APL 3 (FY05)	107.6	100%	107.6
	EAP	China	CN-Inner Mongolia Highway & Trade Corrid	100.0	99%	99.0	
		Vietnam	VN-ROAD SAFETY	31.7	22%	7.0	
	ECA	Poland	ROAD MAINT & REHAB 2	130.5	96%	125.3	
		Romania	TRANSPORT RESTRUCTURING	225.0	100%	225.0	
		Turkey	RAIL RESTRUCT	184.7	100%	184.7	
	LCR	Argentina	AR-Provincial Road InfrastructureProject	150.0	100%	150.0	
		Chile	CL-Infrastructure for Territorial Dvlpmnt	50.3	27%	13.6	
			Uruguay	UY Transp. Inf. Maint. and Rural Access	70.0	95%	66.5
	SAR	Afghanistan	Emergency Transport - Supplemental	45.0	100%	45.0	
		India	Lucknow-Muzaffarpur National Highway	620.0	96%	595.2	
			Rural Roads Project	399.5	95%	379.5	
			Nepal	Rural Access Improve. & Decentralization	32.0	100%	32.0
<b>Sub-Total</b>			<b>Transport Dedicated Commitments</b>			<b>2319.5</b>	
<b>Non Transport-Dedicated</b>	AFR	Chad	TD-Local Dev Prog Sup APL (FY05)	23.0	22%	5.1	
		Congo, Democratic Repu	CD-Emerg Soc Action (FY05)	60.0	8%	4.8	
			CD-Emergen Living Conditions Impr (FY05)	82.0	50%	41.0	
		Gambia, The	GM-Pov Allev & Munil Dev Supl SIL (FY05)	4.0	6%	0.2	
		Ghana	GH-Com Based Rural Dev (FY05)	60.0	20%	12.0	
		Madagascar	MG-Community Dev Fund Sup Crd (FY05)	50.0	25%	12.5	
		Mali	ML-Growth Supt SIL (FY05)	55.0	13%	7.2	
		Senegal	SN-Casamance Emerg Reconstr Supt (FY05)	20.0	50%	10.0	
		Sierra Leone	SL-Bumbuna Support SIL (FY05)	12.5	1%	0.1	
		Tanzania	TZ-Loc Govt Supt SIL (FY05)	52.0	5%	2.6	
			TZ-Soc Action Fund 2 SIL (FY05)	150.0	10%	15.0	
	EAP	China	CN - Poor Rural Communities Development	100.0	13%	13.0	
			CN-HUNAN URBAN DEV	172.0	20%	34.4	
			CN-CHONGQING SMALL CITIES IIP	180.0	33%	59.4	
		Indonesia	ID-USDRP	45.0	22%	9.9	
			ID-Initiatives for Local Govern. Reform	29.5	40%	11.8	
			ID-UPP3	138.7	29%	40.2	
			Kecmatan Development Project 3B	160.0	20%	32.0	
	ECA	Albania	COASTAL ZONE MGMT (APL #1)	17.5	15%	2.6	
		Azerbaijan	IDP ECON DEVT SUPPORT	11.5	20%	2.3	
		Kosovo	ECON POL/PUB EXP MGMT	5.5	3%	0.2	
		Kyrgyz Republic	SMALL TOWNS INFRA & CAP BLDG	15.0	19%	2.9	
	LCR	Romania	PAL	150.0	10%	15.0	
		Argentina	AR(CRL1)Buenos Aires Infrastr SIDP(1APL)	200.0	55%	110.0	
		Brazil	BR TA-Sustain. & Equit Growth	12.1	25%	3.0	
		Colombia	CO Prog Dev Policy Ln for Sust. Dev	150.0	10%	15.0	
			CO-(APL1)Disaster VulnerabilityReduction	260.0	20%	52.0	
		Haiti	HT Economic Governance Reform Adj. Ope.	61.0	12%	7.3	
		Peru	PE PROGRAMATIC REFORM FOR GROWTH II	100.0	25%	25.0	
		PE (CRL2) Guarantee Facility	200.0	57%	114.0		
	MNA	Djibouti	DJ-FLOOD EMERGENCY REHABILITATION	6.5	40%	2.6	
		Iran, Islamic Republic of	IR-BAM EARTHQUAKE EMERGENCY RECONSTR.	220.0	12%	26.4	
	SAR	Afghanistan	Kabul Urban Reconstruction Project	25.0	24%	6.0	
		Bhutan	Decentralized Rural Development	7.0	64%	4.5	
		India	Assam Agric Competitiveness	154.0	60%	92.4	
		Nepal	NP Economic Reform TA	3.0	5%	0.2	
		Sri Lanka	Sri Lanka Tsunami ERL	75.0	35%	26.3	
<b>Sub-Total</b>			<b>Transport Non-Dedicated Commitments</b>			<b>818.8</b>	
<b>Total</b>			<b>Transport</b>			<b>3138.2</b>	

**Water Supply and Sanitation Projects Approved in FY05**  
(IBRD/IDA, Guarantees, GEF, Special Financing)

	Region	Country	Project Name	Total WB loan/credit (\$ million)	% of which WSS	WSS Commitment (\$ million)	
<b>WSS-Dedicated</b>	<b>AFR</b>	Ghana	GH-Urban Water SIL (FY05)	103.0	85%	87.6	
			GH-Small Towns Water Sply & Sanit (FY05)	26.0	90%	23.4	
		Lesotho	LS-Water Sec Improvements APL (FY05)	14.1	80%	11.3	
		Sierra Leone	SL-Power & Water SIL (FY05)	35.0	38%	13.3	
			SL-Urban Wtr Sply Supl SIL (FY05)	3.2	100%	3.2	
	<b>EAP</b>	China	CN-TAI BASIN URBAN ENVMT	61.0	90%	54.9	
			CN-HUNAN URBAN DEV	172.0	27%	46.4	
			CN-LIUZHOU ENVIRONMENT MGMT	100.0	93%	93.0	
			CN-NINGBO WATER & ENVMT	130.0	100%	130.0	
		Philippines	PH-MANILA THIRD SEWERAGE PROJECT	64.0	100%	64.0	
		Vietnam	VN-WATER SUPPLY DEV.	112.6	100%	112.6	
	<b>ECA</b>	Armenia	YEREVAN WATER/WW SERVS	20.0	100%	20.0	
		Bosnia-Herzegovina	URB INFRA & SERV DEL	20.0	75%	15.0	
			QUALITY PROTECT (GEF)	8.9	100%	8.9	
	<b>LCR</b>	Argentina	AR(CRL1)Buenos Aires Infrastr SIDP(1APL)	200.0	30%	60.0	
			AR (APL1)Urban Flood Preven&Drainage	130.0	2%	2.6	
		Brazil	BR Espirito Santo Wtr & Coastal Pollu	36.0	90%	32.4	
		Colombia	CO APL1-Water & Sanit. Sector Support	70.0	96%	67.2	
		St. Lucia	LC Water Supply Infrastr. Improvement	7.7	92%	7.1	
	<b>MNA</b>	Iran, Islamic Republic of	IR-NORTHERN CITIES WATER & SANITATION	224.0	100%	224.0	
West Bank and Gaza		GZ-GAZA II EMERGENCY WATER	20.0	33%	6.6		
		GZ-NORTH GAZA EMERGENCY SEWAGE TREATME	7.8	100%	7.8		
<b>Sub-Total</b>		<b>Water Supply and Sanitation Dedicated Commitments</b>				<b>1091.3</b>	
<b>Non WSS-Dedicated</b>	<b>AFR</b>	Angola	AO-Emerg MS Recovery ERL (FY05)	50.7	51%	25.9	
		Benin	BJ-PRSC 2 DPL (FY05)	30.0	10%	3.0	
		Chad	TD-Local Dev Prog Sup APL (FY05)	23.0	20%	4.6	
		Congo, Democratic Repu	CD-Emergen Living Conditions Impr (FY05)	82.0	15%	12.3	
		Congo, Republic of	CG-Econ Recovery Credit ERL (FY05)	30.0	2%	0.6	
		Gambia, The	GM-Pov Allev & Munil Dev Supl SIL (FY05)	4.0	17%	0.7	
		Ghana	GH-Com Based Rural Dev (FY05)	60.0	20%	12.0	
		Madagascar	MG-Community Dev Fund Sup Crd (FY05)	50.0	25%	12.5	
		Rwanda	RW-PRSC 1 DPI (FY05)	65.0	15%	9.8	
		Senegal	SN-Elec. Serv. for Rural Areas (FY05)	29.9	3%	0.9	
		Sierra Leone	SL-Bumbuna Support SIL (FY05)	12.5	3%	0.4	
		Tanzania	TZ-Loc Govt Supt SIL (FY05)	52.0	10%	5.2	
				TZ-Soc Action Fund 2 SIL (FY05)	150.0	10%	15.0
				TZ-Lake Victoria Supplemental 2 (IDA)	3.5	9%	0.3
			Uganda	UG-PRSC 4 (FY05)	150.0	20%	30.0
		<b>EAP</b>	China	CN - Poor Rural Communities Development	100.0	6%	6.0
			CN-CHONGQING SMALL CITIES IIP	180.0	43%	77.4	
			ID-Initiatives for Local Govern. Reform	29.5	10%	3.0	
			ID-UPP3	138.7	13%	18.0	
			Kecmatan Development Project 3B	160.0	20%	32.0	
	<b>ECA</b>	Albania	COASTAL ZONE MGMT (APL #1)	17.5	30%	5.3	
		Azerbaijan	IDP ECON DEVT SUPPORT	11.5	20%	2.3	
		Kyrgyz Republic	SMALL TOWNS INFRA & CAP BLDG	15.0	52%	7.8	
		Russian Federation	KAZAN MUNICIPAL DEVT	125.0	10%	12.5	
		Turkey	MUNICIPAL SERVICES	275.0	76%	209.0	
	<b>LCR</b>	Bolivia	BO-Social Sector Programmatic Credit II	15.0	25%	3.8	
		Brazil	BR-(Amapa) Sustainable Communities	4.8	25%	1.2	
			BR-Integ.Munic.Proj.-Betim Municipality	24.1	40%	9.6	
		Chile	CL-Infrastructure for Territorial Dvlpmt	50.3	30%	15.1	
		Colombia	CO Prog Dev Policy Ln for Sust. Dev	150.0	20%	30.0	
		Haiti	HT Economic Governance Reform Adj. Ope.	61.0	4%	2.4	
		Peru	PE (CRL2) Guarantee Facility	200.0	16%	32.0	
	<b>MNA</b>	Djibouti	DJ-FLOOD EMERGENCY REHABILITATION	6.5	20%	1.3	
		Egypt, Arab Republic of	Integrated Irrig Improv. & Mgmt.	120.0	1%	1.2	
		Tunisia	TN-Tunisia: GEF: Gulf of Gabes	6.3	50%	3.2	
	<b>SAR</b>	Afghanistan	Kabul Urban Reconstruction Project	25.0	40%	10.0	
			Emerg National Solidarity -Supplemental	28.0	20%	5.6	
		India	Hydrology II	105.0	25%	26.2	
			India Tsunami ERC	465.0	9%	41.9	
	<b>Sub-Total</b>		<b>Water Supply and Sanitation Non-Dedicated Commitments</b>				<b>689.7</b>
<b>Total</b>		<b>Water Supply and Sanitation</b>				<b>1781.0</b>	

**ICT Projects Approved in FY05**  
(IBRD/IDA, Guarantees, GEF, Special Financing)

	Region	Country	Project Name	Total WB loan/credit (\$ million)	% of which ICT	ICT Commitment (\$ million)
<b>ICT-Dedicated</b>	<b>LCR</b>	OECS Countries	OECS-Telecomm & ICT Development Pro	2.7	80%	2.2
	<b>MNA</b>	Tunisia	TN-ICT Sector Development Project	13.1	40%	5.3
	<b>SAR</b>	Sri Lanka	E-Sri Lanka Development	53.0	70%	37.1
<b>Sub-Total</b>			<b>ICT Dedicated Commitments</b>			<b>44.5</b>
<b>Non ICT-Dedicated</b>	<b>AFR</b>	Ethiopia	ET-ICT Assisted Dev SIM (FY05)	25.0	60%	15.0
		Rwanda	RW-Pub Sec CB TAL (FY05)	20.0	5%	1.0
		Zambia	ZM-Econ Mgmt & Growth SAC (FY05)	40.0	10%	4.0
	<b>EAP</b>	China	CN - Agricultural Technology Transfer	100.0	5%	5.0
	<b>ECA</b>	Azerbaijan	FIN SERV DEVT	12.3	89%	10.9
	<b>LCR</b>	Chile	CL-Infrastructure for Territorial Dvlpmt	50.3	22%	11.1
		Ecuador	EC Scnd. Fiscal Consolid & Comp. Growth	100.0	5%	5.0
		Haiti	HT Economic Governance Reform Adj. Ope.	61.0	4%	2.4
		Mexico	MX-(APL1) Innov. for Competitiveness	250.0	4%	10.0
		Peru	PE (CRL2) Guarantee Facility	200.0	7%	14.0
	<b>MNA</b>	Iran, Islamic Republic of	IR-BAM EARTHQUAKE EMERGENCY RECONSTR.	220.0	6%	13.2
	<b>SAR</b>	India	DISEASE SURVEILLANCE	68.0	10%	6.8
		Nepal	NP Economic Reform TA	3.0	1%	0.0
		Pakistan	Pakistan PRSC I	300.0	16%	48.0
	<b>Sub-Total</b>			<b>ICT Non-Dedicated Commitments</b>		
<b>Total</b>			<b>ICT</b>			<b>190.9</b>

**Solid Waste Management and Flood Protection Projects Approved in FY05**  
(IBRD/IDA, Guarantees, GEF, Special Financing)

	Region	Country	Project Name	Total WB loan/credit (\$ million)	% of which Sol. Waste, Fld Prot.	Sol. Waste, Fld. Prot. Commitment (\$ million)
<b>INF-Dedicated</b>	<b>AFR</b>	Gambia, The	GM-Pov Allev & Munil Dev Supl SIL (FY05)	4.0	51%	2.0
		Sierra Leone	SL-Power & Water SIL (FY05)	35.0	5%	1.8
	<b>EAP</b>	China	CN-TAI BASIN URBAN ENVMT	61.0	10%	6.1
			CN-HUNAN URBAN DEV	172.0	45%	77.4
			CN-CHONGQING SMALL CITIES IIP	180.0	21%	37.8
			CN-LIUZHOU ENVIRONMENT MGMT	100.0	5%	5.0
	<b>ECA</b>	Turkey	MUNICIPAL SERVICES	275.0	16%	44.0
	<b>LCR</b>	Argentina	AR(CRL1)Buenos Aires Infrastr SIDP(1APL)	200.0	5%	10.0
			AR (APL1)Urban Flood Preven&Drainage	130.0	94%	122.2
		Colombia	CO-(APL1)Disaster VulnerabilityReduction	260.0	35%	91.0
		Haiti	HT Emergency Recov. & Disaster Management	12.0	10%	1.2
		Peru	PE Vilcanota Valley Rehab & Mgmt Project	5.0	35%	1.7
	<b>MNA</b>	Djibouti	DJ-FLOOD EMERGENCY REHABILITATION	6.5	25%	1.6
<b>Sub-Total</b>			<b>Solid Waste and Flood Protection INF-Dedicated Commitments</b>			<b>401.8</b>
<b>Non INF-Dedicated</b>	<b>AFR</b>	Congo, Republic of	CG-Econ Recovery Credit ERL (FY05)	30.0	2%	0.6
	<b>ECA</b>	Albania	NATURAL RES DEVT	7.0	8%	0.6
			COASTAL ZONE MGMT (APL #1)	17.5	30%	5.3
			NATURAL RES DEVT (GEF)	5.0	15%	0.8
		Bosnia-Herzegovina	SOLID WASTE MGMT SUPPLMT	8.0	97%	7.8
		Georgia	IRR/DRAIN REHAB SUPPLMT (APL #1)	13.0	65%	8.5
	<b>MNA</b>	Egypt, Arab Republic of	Integrated Irrig Improv. & Mgmt.	120.0	1%	1.2
<b>Sub-Total</b>			<b>Solid Waste and Flood Protection Non-Dedicated Commitments</b>			<b>24.6</b>
<b>Total</b>			<b>Solid Waste and Flood Protection</b>			<b>426.4</b>

**Urban Development<sup>6</sup> Projects Approved in FY05**  
(IBRD/IDA, Guarantees, GEF, Special Financing)

	Region	Country	Project Name	Total WB loan/credit (\$ million)	% of which Urban	Urban Commitment (\$ million)	
<b>Urban-Dedicated</b>	<b>AFR</b>	Congo, Democratic Repu	CD-Emergen Living Conditions Impr (FY05)	82.0	34%	27.9	
		Gambia, The	GM-Pov Allev & Munil Dev Supl SIL (FY05)	4.0	75%	3.0	
		Tanzania	TZ-Loc Govt Supt SIL (FY05)	52.0	66%	34.3	
	<b>EAP</b>	China	CN-CHONGQING SMALL CITIES IIP	180.0	58%	104.4	
		Indonesia	ID-USDRP	45.0	100%	45.0	
	<b>ECA</b>	Kyrgyz Republic	ID-UPP3	138.7	57%	79.1	
			SMALL TOWNS INFRA & CAP BLDG	15.0	60%	9.0	
		Moldova	CADASTRE SUPPLMT	3.0	14%	0.4	
		Russian Federation	KAZAN MUNICIPAL DEVT	125.0	43%	53.8	
		Turkey	MUNICIPAL SERVICES	275.0	50%	137.5	
	<b>LCR</b>	Brazil	BR(CRL1)Prog Growth for Housing	502.5	33%	165.8	
		Mexico	MX Housing & Urban Technical Assistance	7.8	50%	3.9	
	<b>MNA</b>	Peru	PE Vilcanota Valley Rehab & Mgmt Project	5.0	45%	2.2	
		Djibouti	DJ-FLOOD EMERGENCY REHABILITATION	6.5	28%	1.8	
	<b>SAR</b>	Iran, Islamic Republic of	IR-BAM EARTHQUAKE EMERGENCY RECONSTR.	220.0	50%	110.0	
		Morocco	MA-HOUSING SECTOR DPL	150.0	33%	49.5	
		Afghanistan	Kabul Urban Reconstruction Project	25.0	74%	18.5	
		Sri Lanka	North East Housing Reconstruction Progra	75.0	29%	21.8	
			Sri Lanka Tsunami ERL	75.0	25%	18.8	
<b>Sub-Total</b>		<b>Urban Development Dedicated Commitments</b>				<b>886.6</b>	
<b>Non Urban-Dedicated</b>	<b>AFR</b>	Benin	BJ-Energy Srvc Delivery APL (FY05)	45.0	20%	9.0	
		Chad	TD-Local Dev Prog Sup APL (FY05)	23.0	13%	3.0	
		Eritrea	ER-Power Distribution SIL (FY05)	50.0	28%	14.0	
		Ghana	GH-Urban Water SIL (FY05)	103.0	29%	29.9	
		Kenya	KE-Energy Sec Recovery Prj (FY05)	80.0	29%	23.2	
		Lesotho	LS-Water Sec Improvements APL (FY05)	14.1	67%	9.4	
		Rwanda	RW-Urgent Electricity Rehab SIL (FY05)	25.0	40%	10.0	
		Sierra Leone	SL-Bumbuna Hydro Completion (FY05)	38.0	40%	15.2	
			SL-Power & Water SIL (FY05)	35.0	29%	10.2	
			SL-Urban Wtr Sply Supl SIL (FY05)	3.2	25%	0.8	
		Uganda	UG-Road Dev APL 3 (FY05)	107.6	20%	21.5	
		<b>EAP</b>	China	CN-TAI BASIN URBAN ENVMT	61.0	28%	17.1
				CN-GEF-Heat Reform & Bldg Egy Eff.	18.0	33%	5.9
	CN-HUNAN URBAN DEV			172.0	40%	68.8	
	CN-LIUZHOU ENVIRONMENT MGMT			100.0	60%	60.0	
	CN-NINGBO WATER & ENVMT			130.0	20%	26.0	
	Philippines		PH-MANILA THIRD SEWERAGE PROJECT	64.0	40%	25.6	
	Timor-Leste		TP-POWER SECTOR PRIORITY INVESTMENTS	1.4	40%	0.6	
	Vietnam		VN-WATER SUPPLY DEV.	112.6	60%	67.6	
	<b>ECA</b>		Albania	COASTAL ZONE MGMT (APL #1)	17.5	14%	2.5
			Armenia	YEREVAN WATER/WW SERVS	20.0	40%	8.0
			Bosnia-Herzegovina	URB INFRA & SERV DEL	20.0	67%	13.4
		Kyrgyz Republic	SOLID WASTE MGMT SUPPLMT	8.0	33%	2.6	
	Romania	RURAL EDUC	15.0	17%	2.6		
	Turkey	TRANSPORT RESTRUCTURING	225.0	17%	38.3		
	<b>LCR</b>	Turkey	SEISMIC RISK MITIGATION	400.0	25%	100.0	
		Argentina	AR(CRL1)Buenos Aires Infrastr SIDP(1APL)	200.0	58%	116.0	
			AR (APL1)Urban Flood Preven&Drainage	130.0	40%	52.0	
		Brazil	BR-(Amapa) Sustainable Communities	4.8	22%	1.1	
			BR-Integ.Munic.Proj.-Betim Municipality	24.1	43%	10.4	
			BR Espirito Santo Wtr & Coastal Pollu	36.0	50%	18.0	
		Colombia	CO 2nd Programmatic FSAL	100.0	14%	14.0	
			CO APL1-Water & Sanit. Sector Support	70.0	33%	23.1	
		Dominican Republic	DO Power Sector Program Loan	150.0	29%	43.5	
		El Salvador	SV Land Administration II	40.2	13%	5.2	
	<b>MNA</b>	St. Lucia	LC Water Supply Infrastr. Improvement	7.7	25%	1.9	
		Iran, Islamic Republic of	IR-NORTHERN CITIES WATER & SANITATION	224.0	49%	109.8	
			West Bank and Gaza	GZ-GAZA II EMERGENCY WATER	20.0	29%	5.8
	<b>Sub-Total</b>		<b>Urban Development Non-Dedicated Commitments</b>				<b>985.7</b>
	<b>Total</b>		<b>Urban Development</b>				<b>1872.3</b>

<sup>6</sup> The Bank's infrastructure business is organized into major sectors (Energy and Mining, ICT, Transport and Water Supply and Sanitation) and major themes (Urban Development). Because Urban is a theme, it is not mutually exclusive with the sectors and its components are generally subsumed within the infrastructure major sectors.

## ANNEX C: INFRASTRUCTURE GLOBAL PROGRAMS AND PARTNERSHIPS

A number of partnerships have been formed between the World Bank and external development agencies to support specific infrastructure initiatives. The objectives of these partnerships—known as Global Programs and Partnerships (GPPs)—are to invest in the creation and sharing of infrastructure knowledge, to align infrastructure policies and practices across the World Bank and donors, and to mobilize funding in direct support of clients. With combined commitments of over \$72 million in FY05, the GPPs play an important role in the World Bank’s work on global knowledge and best-practice sharing.

Total Activities Approved by all INF GPPs in FY05 (\$000)								
	AFR	EAP	ECA	LCR	MNA	SAR	GLOBAL	PROGRAM TOTALS
PPIAF	4,797	3,086	2,861	2,224	440	1,104	2,690	17,201
WSP	3,151	2,259	0	1,520	574	4,423	0	11,928
Cities Alliance	682	500	730	2,742	1,339	905	4,120	11,018
ESMAP	3,620	2,775	148	830	0	2,050	408	9,831
EITI	4,985	356	302	964	0	0	0	6,607
InfoDev	1,126	498	1,550	910	550	520	1,140	6,294
GGFR	1,593	667	423	0	476	0	0	3,159
GPOBA	1,215	46	372	103	751	115	0	2,602
NTF-PSI	1,241	135	75	413	60	0	0	1,924
BNWP-WSS	493	208	0	96	20	65	0	883
CASM	138	98	0	0	0	95	90	420
Provention Consortium	0	100	90	0	0	0	0	190
<b>REGIONAL TOTALS</b>	<b>23,041</b>	<b>10,727</b>	<b>6,551</b>	<b>9,802</b>	<b>4,210</b>	<b>9,277</b>	<b>8,448</b>	<b>72,056</b>

### Major Global Programs and Partnerships<sup>7</sup>:

**Bank-Netherlands Water Partnership (BNWP)** is a new program to improve delivery of WSS services to the poor. BNWP enhances performance of World Bank operations in the water supply and sanitation sector and supports a broad sector reform agenda with a strong poverty focus. BNWP supports the international effort to reach the Millennium Development Goals, especially to halve—by 2015—the proportion of people without access to potable water.

**Cities Alliance:** The Cities Alliance was formed to realize the vision of *Cities Without Slums*. It was created to foster new tools, practical approaches and knowledge sharing to promote local economic development and a direct attack on urban poverty. Its activities support the implementation of the UN-Habitat Agenda. It is a global alliance of cities and their development partners committed to improve the living conditions of the urban poor through action in two areas: 1) City development strategies which develop a shared vision for a city’s future and local priorities to reduce urban poverty. 2) Citywide and nationwide slum upgrading on a large scale.

**Communities and Small-scale Mining (CASM)** aims to reduce poverty by supporting integrated sustainable development of communities affected by or involved in artisanal and small-scale mining. A major aim of CASM is to collect and share the lessons learned from the past decade of development efforts but also to contribute to the improvement of new efforts. CASM was launched in 2001 as a multi-donor networking and coordination facility that would engage with practicing miners,

<sup>7</sup> Some smaller and new GPPs are not included in this list, such as the Global Road Safety Facility, the Global Facilitation Program for Transport and the Global Village Energy Partnership.

their associations and communities, governments and non-governmental organizations, and development assistance agencies.

**Energy Sector Management Assistance Programme (ESMAP):** ESMAP is a global technical assistance program that focuses on the role of energy in poverty alleviation and economic growth for improving living conditions and preserving the environment in developing countries and economies in transition. ESMAP focuses on three strategic areas: market-oriented energy sector reform, access to efficient and affordable energy, and environmentally sustainable production, transportation, distribution and use of energy. ESMAP has been actively pursuing cross-sectoral linkages of the energy business with health, transport, gender, water, environment, etc. With an estimated 90% of Sub-Saharan Africa's population unserved by modern energy, the African continent is an important focus of ESMAP's work.

**Extractive Industries Transparency Initiative (EITI)** aims to ensure that the revenues from extractive industries contribute to sustainable development and poverty reduction by increasing transparency of payments by companies to governments and transparency of revenues received by those governments. The UK Department for International Development (DFID) has spearheaded the initiative since 2002. The World Bank Group is actively involved because of its expertise in extractive industries and prominent role in promoting transparency. The EITI is actively seeking additional donors.

**Global Gas Flaring Reduction Partnership (GGFR):** The objective of GGFR Public-Partnership is to support national governments and the petroleum industry in their efforts to reduce the flaring and venting of gas associated with the extraction of crude oil by improving the framework for private sector investments. Apart from the World Bank, the Partnership currently comprises the Governments/National Oil Companies of Algeria (Sonatrach), Angola, Cameroon (SNH), Chad, Ecuador, Nigeria, Norway and the USA as well as the international oil companies BP, ChevronTexaco, ExxonMobil, Norsk Hydro, Shell, Statoil and TOTAL. Additional Partner countries and companies are expected to join in the near future.

**Global Partnership for Output-Based Aid (GPOBA):** OBA is a strategy for supporting the delivery of basic services where policy concerns justify public funding to complement or replace user fees. OBA approaches have been applied in a range of infrastructure sectors – water, sanitation, electricity, telecommunications and transport – as well as in diverse implementation environments. The GPOBA is assisting in the development and documenting of pilot OBA schemes for basic infrastructure and social services in developing countries. The GPOBA is actively seeking additional donors.

**Information for Development (InfoDev):** *InfoDev* is a global grant program managed by the World Bank to promote innovative projects on the use of information and communication technologies for economic and social development, with a special emphasis on the needs of the poor in developing countries. *InfoDev* channels policy advice and other technical assistance to governments in developing economies on privatization, private entry and competition in the communications and information sectors, and on improving the policy, regulatory and business environment for investment.

**Norwegian Trust Fund for Private Sector Development and Infrastructure (NTF-PSI):** NTF-PSI provides grant resources for activities in the private sector and in infrastructure. The NTF-PSI will fund energy and mining, water and sanitation, urban development, transport, infrastructure, SMEs and microfinance, and private sector development across the World Bank Group. The NTF-PSI fund concentrates on the poorest countries, and half the funds are earmarked for Africa.

**ProVention Consortium (ProVention):** The ProVention Consortium is a global coalition of governments, international organizations, academic institutions, the private sector, and civil society organizations aimed at reducing disaster impacts in developing countries. The Consortium functions as a network to share knowledge and to connect and leverage resources to reduce disaster risk. It focuses on synergy and coordination so that efforts, and benefits, are shared. ProVention is currently based in the International Federation of Red Cross in Switzerland.

**Public-Private Infrastructure Advisory Facility (PPIAF):** The Public-Private Infrastructure Advisory Facility (PPIAF) is a multi-donor technical assistance facility aimed at helping developing countries improve the quality of their infrastructure through private sector involvement. PPIAF assistance facilitates private involvement in the financing, ownership, operation, rehabilitation, maintenance, or management of infrastructure services.

**Water and Sanitation Program (WSP):** The Water and Sanitation Program (WSP) is an international partnership program which seeks to help poor people in developing countries gain sustained access to safe drinking water and sanitation. The WSP maintains regional and country offices in Africa, Asia and Latin America and engages with a broad network of partners including private service providers to develop innovative solutions to the obstacles faced by poor communities in obtaining water and sanitation services. It provides advice to policymakers to help adopt improved policies and strategies and to undertake institutional reform. It also provides advice to strengthen the investment programs and projects of its clients and partners, and it generates, validates and communicates innovative water supply and sanitation solutions.

## ANNEX D: INFRASTRUCTURE INDICATORS STATUS TO DATE

Sector	Status To Date
Energy	<ul style="list-style-type: none"> <li>• <i>Developed energy headliners/global indicators</i>, and incorporated <i>electrification rates</i> in the IDA-14 results measurement system, proposed and tested an alternative global indicator based on household use of solid fuels</li> <li>• <i>Developed methodologies for improved collection of country level performance indicators</i> and strengthened clients' national capacity for multi-topic and specialized surveys. (including preparation of guidelines for incorporating energy in multi-topic household surveys (LSMS))</li> </ul>
Information and Communication Technologies	<ul style="list-style-type: none"> <li>• <i>Global indicators well established</i> and already included in both the MDGs (Target 18) and IDA-14 measurement system.</li> <li>• <i>Undertook stocktaking exercise</i> of existing ICT data at country, micro and project level</li> <li>• <i>Defined a set of core ICT indicators</i> and established web-based ICT data resources page</li> <li>• <i>Completed a flagship report</i> (World Information and Communication for Development Report 2006)</li> <li>• <i>Founded and participated in the Global "Measuring ICT for Development" Partnership</i></li> </ul>
Transport	<ul style="list-style-type: none"> <li>• <i>Refined global transport indicators</i>, including World Development Indicators 2005, established the <i>rural access indicator</i> (RAI) in the IDA-14 framework, and defined and piloted 4 additional headliner indicators</li> <li>• <i>Strengthened cooperation with specialist national data collection and reporting organizations</i> (e.g. International Road Federation, World Road Association, International Union of Railways, International Civil Aviation organization)</li> <li>• <i>Undertook stock-taking of existing data availability and quality</i>, and developed core measures to ensure data consistency</li> <li>• <i>Developed multi-year Development Impact Evaluation (DIME) initiatives on assessing the impact of urban transport interventions</i></li> </ul>
Urban	<ul style="list-style-type: none"> <li>• <i>Defined and mainstreamed global indicators</i>, including introduction of urban indicators into World Development Indicators 2005</li> <li>• <i>Developed 'multi-agency' working relation</i> with UN-Habitat and DFID for data collection and maintenance</li> <li>• <i>Launched multi-year impact evaluation studies</i> to quantitatively assess the contribution of WB projects to urban sector targets (specifically slum upgrading projects)</li> </ul>
Water Supply and Sanitation	<ul style="list-style-type: none"> <li>• <i>Contributed to UNICEF-WHO Joint Monitoring Program</i> through participation in the Advisory Group on Harmonization of Household Survey Questions on Water and Sanitation and played active role in the standardization of definitions and harmonization of survey questions.</li> <li>• <i>Contributed to the expansion of the International Benchmarking Network (IBNET) for Water and Sanitation Utilities</i></li> <li>• <i>Developed and tested tools and methodologies for improved monitoring and evaluation</i> to implement and enhance monitoring and evaluation in the sector</li> <li>• <i>Developed set of basic policy indicators</i> that need to be collected to monitor access to safe and sustainable WSS services project and national levels, and consumer and service providers levels</li> <li>• <i>Introduced the use of standard water supply and sanitation access data in all dedicated WSS projects</i></li> </ul>