

## Review of the FY05 and FY06 World Bank rural portfolio in infrastructure services<sup>1</sup>

### 1. Portfolio at a glance

Over the past six fiscal years, rural infrastructure lending has represented both the highest number of projects and the biggest lending commitment among new investments made in rural areas. In FY06, close to one third of Bank lending in the rural sector was spent on infrastructure and nearly two-fifths of the rural projects financed by the Bank included an infrastructure component. However starting in FY05, rural infrastructure lending has continuously decreased despite an increase during the same period in the share of rural investments in total banking lending (Table 1). In FY06, close to 60% of the projects devoted more than 50% of their total cost to infrastructure components compared to 47% in FY05 (Figure 1).

**Table 1. Infrastructure lending (US\$ million) and projects in rural space, by fiscal year**

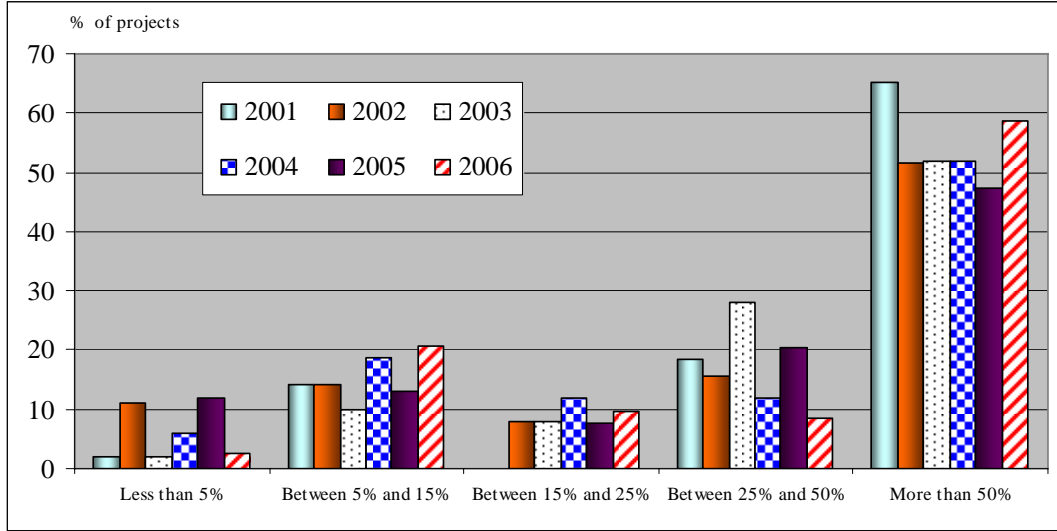
| Fiscal Year | WB                                |                         | Infrastructure     |                           | Infrastructure as % of total projects in rural space | Infrastructure as % of rural lending portfolio |
|-------------|-----------------------------------|-------------------------|--------------------|---------------------------|--|--|
|             | Number of projects in rural space | Rural lending portfolio | Number of projects | Lending to Infrastructure |  |  |
| FY01        | 121                               | 5,215                   | 56                 | 1,601                     | 46%  | 31%  |
| FY02        | 116                               | 4,936                   | 82                 | 1,694                     | 71%  | 35%  |
| FY03        | 155                               | 7,578                   | 66                 | 2,206                     | 43%  | 29%  |
| FY04        | 195                               | 7,399                   | 110                | 2,778                     | 56%  | 37.5%  |
| FY05        | 217                               | 8,714                   | 110                | 2,630                     | 51%  | 30%  |
| FY06        | 218                               | 8,076                   | 83                 | 2,586                     | 38%  | 32%  |

Regionally, the largest share of the total number of projects has been in Africa for the past 6 consecutive years (Figure 2). For the first time, EAP is the second region with the highest number of projects due to declines in the number of projects in SAR starting in FY05 and in ECA in FY06. In dollar terms, there have been fluctuations starting in FY05 in the amounts of lending investment levels across regions (Figure 3). EAP was the region with the highest amount of lending in FY06, continuing on a progression started in FY01 and despite a reduction of nearly \$600 million in FY05. SAR experienced the biggest reduction in lending commitments between FY05 and FY06; it is now the third region with the highest lending level, behind EAP, which has also experienced a decline in lending investment.

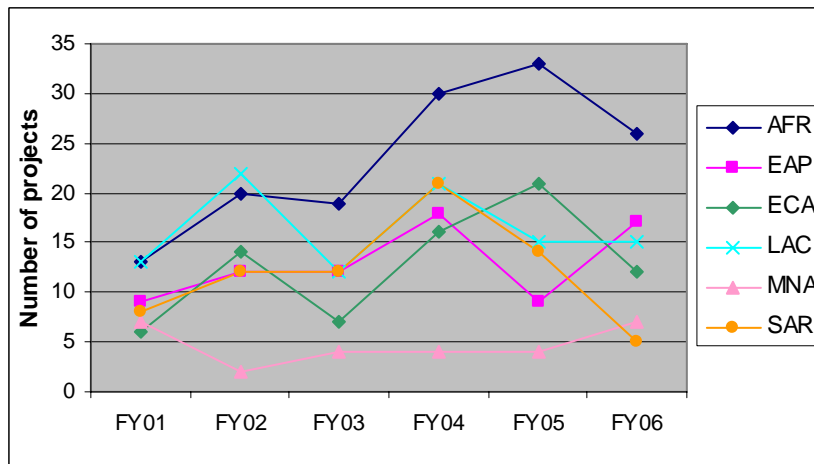
From a sector perspective, significant increases in lending volumes were noticeable in the Energy and Mining sector (lending increased from an average of \$148 million during FY01-FY04 to nearly \$600 million in FY05 and \$1056 million in FY06). Transport and the rural sector had dominated the rural infrastructure portfolio in the FY01-FY04 period, both in terms of number of projects and in terms of lending levels (Figure 4). In FY06, the rural sector more than doubled its FY05 lending levels to reach \$373.24 million. Lending in the transport sector decreased however by nearly 44 % from the previous year, from \$1469 million in FY05 to \$828 million in FY06.

<sup>1</sup> This portfolio review has been prepared by Julie Babinard (Transport and Urban Development Department. Contact: jbabinard@worldbank.org). It has benefited from inputs by and discussions with Samjhana Thapa (data issues); Doug Barnes (energy); Juan Navas-Sabater (Telecommunications); and Wambui Gichuri (Water Supply and Sanitation).

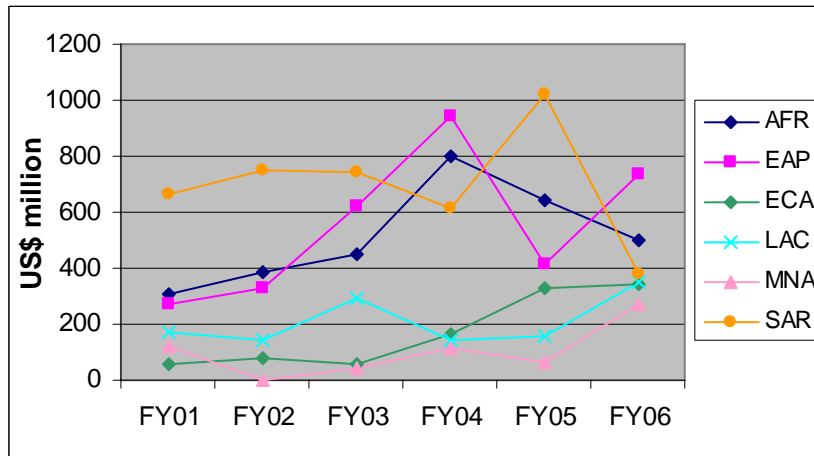
**Figure 1. Distribution of infrastructure lending as percent of total project cost, FY01-FY06**



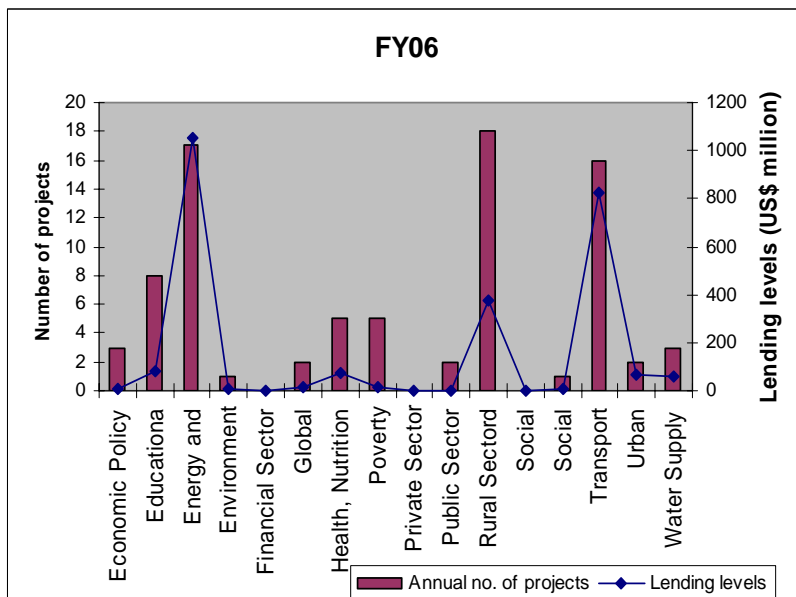
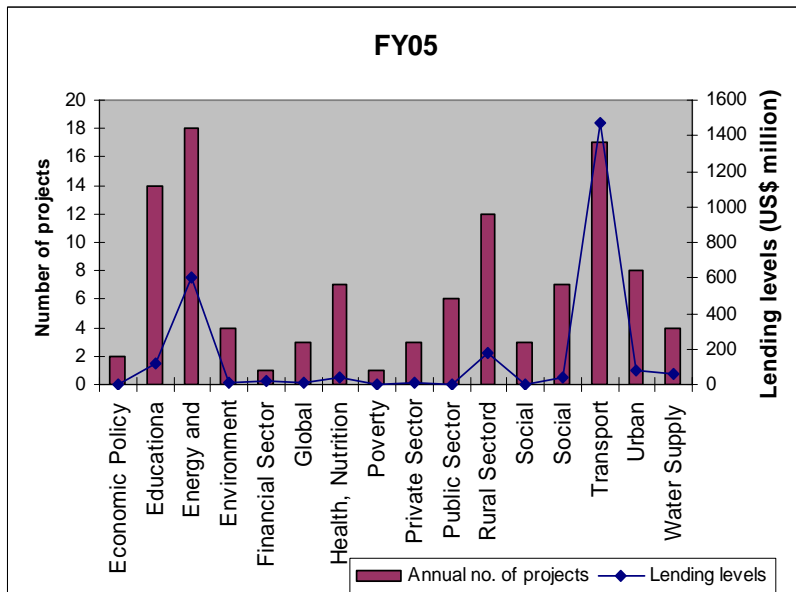
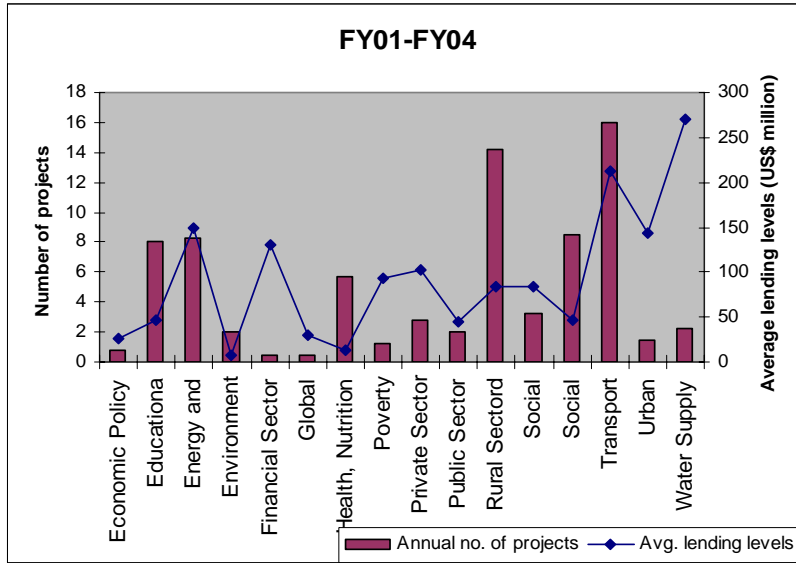
**Figure 2. Distribution of rural projects with infrastructure lending, by region, FY01-FY06**



**Figure 3. Regional distribution of rural projects with infrastructure lending, FY01-FY06**



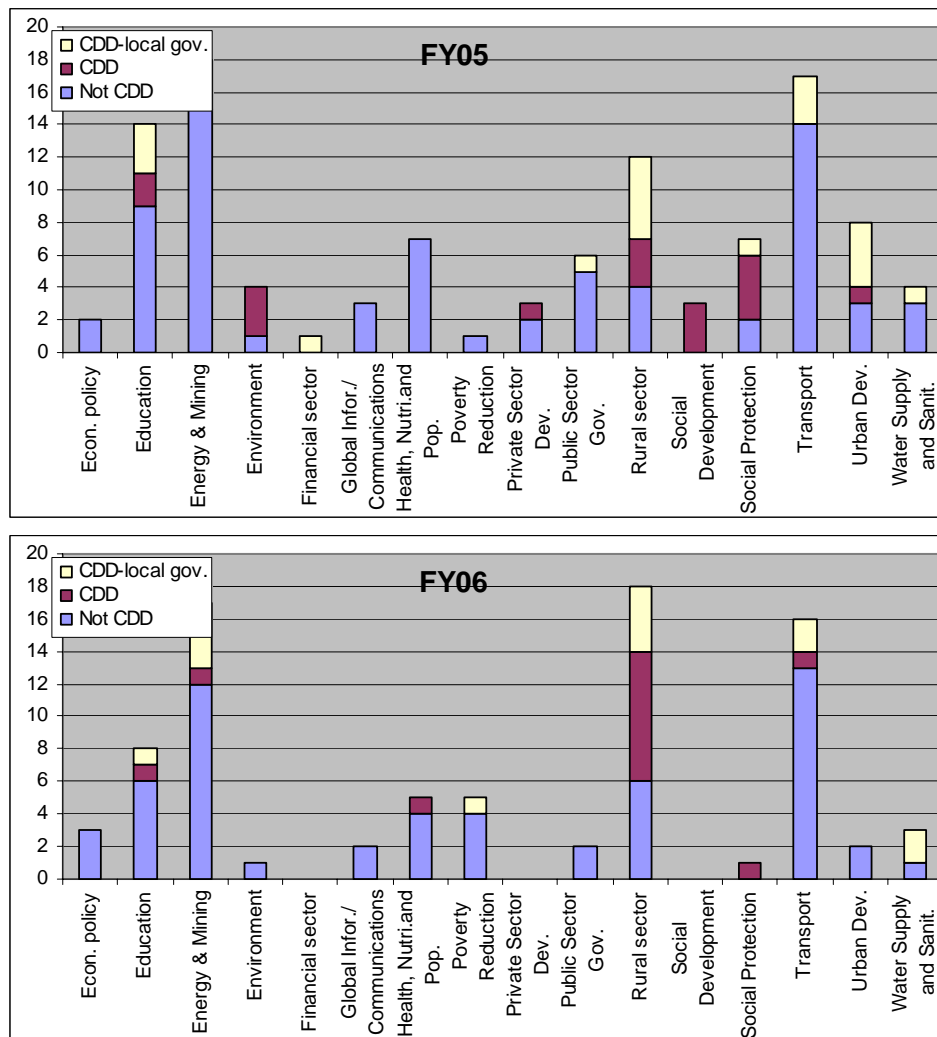
**Figure 4. Number and lending levels of rural projects with infrastructure investment, by sector, FY01-FY04, FY05, and FY06**



Across projects, rural transport infrastructure (roads, tracks, paths, and footbridges) was the type of infrastructure services most frequently supported for both FY05 and FY06, followed closely by projects focusing on energy and electricity, water supply and schools (i.e. education facilities). This is consistent with results for the past four years. Also consistent is the high level of involvement of the relevant sector ministry or agency, which tends to ensure a more effective and efficient delivery of sector-specific interventions. In FY05, 91% of the rural infrastructure projects, and in FY06, 88% of the projects involved the relevant sector ministry or agency in delivering the services.

Compared with FY04, there has been a decrease in the number of projects with provisions for maintenance arrangements designed to manage and finance the infrastructure service. Only 36% of the FY05 projects and 47% of the FY06 projects included explicit maintenance arrangements. In FY04, 69% of the projects had such arrangements.

**Figure 5. FY05 and FY06 infrastructure projects implemented through Community-Driven Development (CDD), by managing sector board**



During 2005-06, there has been less stakeholder involvement in the design and implementation of Bank infrastructure projects than in FY01-FY04, when about 45% of the rural infrastructure projects were implemented either through the participation of local beneficiary communities or through the combined participation of local government

and the community. Only 35% and 32% of the projects in 2005 and 2006, respectively, were community-driven development (CDD) projects, with 56% and 52% of them implemented through Local Government in 2005 and 2006, respectively (Figure 5). Both the Energy and the Transport sector continue to implement the majority of their rural projects without the local participation of their beneficiaries.

## **2. Good practices and innovations**

- A few projects with rural infrastructure services continue to focus on the impact that they are likely to have on the investment climate necessary to support successful business environment activities and agricultural growth, in line with the most recent empirical evidence. A good example in FY06 is a project in Madagascar, in which specific infrastructure issues have been identified as having an indirect cost on firms, including the poor physical road network, deficient power supply and high telecommunications costs and tax and policy inefficiencies.
- The experience gained in territorial development in LAC countries through improved access to basic services and infrastructure (e.g. Guatemala, Honduras, Peru) is being replicated in Chile (FY05) and Haiti (FY06).
- Routine road maintenance and rehabilitation projects or components continue to represent a significant share of rural transport investments in order to ensure the sustainability of road investments (Uruguay and Poland in FY05; Haiti, Iraq, and Poland in FY06).
- The FY06 Peru regional transport decentralization project is a good example of how progress achieved for rural roads at the municipal level can create a favorable environment to implement a decentralized rural infrastructure strategy, integrating the various infrastructure sectors with potential complementarities for possible economic opportunities that can be derived from bundling the services.
- There are some promising developments with rural projects with infrastructure lending devoted to energy access. Assistance to Africa – a region with the lowest access rates in the world – is both significant and growing both in terms of the size of investments and the breadth of issues covered, receiving at present nearly one-third of the total Bank investments in energy access.
- Good practice for telecommunications projects has consisted in implementing the innovative Output-Based Aid (OBA) approach, which consists in giving contracts to private operators requesting the minimum subsidy in exchange of services to selected locations. The contract is disbursed in portions deferred in periodic payments that are established once service is made available and of prescribed quality. The focus of ICT projects with OBA has been on providing public telephones services (via payphones). This has proven quite cost-effective for public telephony and is now being considered for scaling up, in particular for the provision of broadband Internet services. For FY06, telecommunications projects include Nicaragua, where the geographic coverage of mobile telephony networks will be increased, and Mongolia, where expanding internet access will be included.

## **3. Challenges for the future**

- Energy access in developing countries is still uneven. Energy-access investments in South Asia, where there are significant energy policy access challenges and great needs for energy access, remain low for a region with a very high poverty rates and significant segments of the populations dependent of traditional forms of biomass energy. Projects that focus on improved biomass and clean household cooking fuels should be a priority for the region. In this respect, a significant impediment is that

IDA grants are the main financial instrument for energy access investments. As IDA grants are based on country size, population, and level of poverty, they tend to be allocated to only one project a year, thereby limiting scaling up energy access in small countries. Also, there is evidence that country poverty reduction strategies continue to focus insufficiently on energy or energy access, making the allocation of IDA funds for energy access purposes even more difficult.

- With telecommunications projects, the extension of the OBA approach to broadband services is one area that the Bank is considering for new projects. However, the speed of disbursing schemes is still slow and could be increased. The slow implementation of the OBA concept in some countries has so far led to a slow disbursement of funds and has increased the risk that initial targets will not be reached. Moreover, in many countries, there is a growing concern that imbalances between urban and rural areas are widening, as heavy private sector investment in urban broadband networks (either through cable TV networks or over telephone lines with ADSL technology) is not matched in many rural areas, which continue to remain unserved.
- Quantifying potential tangible benefits from rural infrastructure access remains a challenge as does the decentralization of responsibility for infrastructure planning and monitoring. The projects net benefits and results need to be linked more directly with the activities that have been identified as necessary for a region or community to achieve successful poverty reduction outcomes.