

### III LESSONS LEARNED FROM PAST IDA PROGRAMS

69. Infrastructure development can bring about major benefits, linking isolated communities and integrating them into markets, facilitating access to education and other key social services and directly providing services that are essential to raising standards of living. However, often infrastructure development is complex, controversial, and risky. There is potential for wasteful investments (white elephants), environmental damage, loss of livelihood, and corruption. Successful infrastructure development has to recognize the benefits it provides but be aware of the challenges that it poses, in order to make a difference for the poor. Over the decades IDA has learned how to manage this complexity. The following are some of the key lessons learned.

70. **Reconsidering the respective roles of the public and private sectors:** Private investment in infrastructure has been modest, particularly in countries that are still struggling to establish the rule of law, reliable institutions and credible policies. Insufficient attention was directed at creating those enabling conditions, which –among other factors- require strengthening the capacity of Government to interact with the private sector, either as a party to a contract or as a regulator. In addition the more limited interest of the private sector in those sectors such as roads and water supply, where there are more difficulties in earning a return through tariffs, was not considered to the full. Finally, the need to improve the efficiency and availability of Government (or Government-owned utility) provided services remains very important and IDA operations need to ensure that they receive needed support.<sup>32</sup>

71. In the short to medium term, in most low-income countries, governments will remain central actors in the delivery of many infrastructure services, either as providers or enablers. However, the potential contribution of the private sector remains very important, and it would be a serious mistake to assume it away. Private sector involvement is not only about financing, it is also about management, capacity building, and transferring better technologies and innovations.

72. In June 2005 the WBG convened a conference in Capetown to review the experience with Public-Private Initiatives (PPIs) in SSA and to help develop common views for the coming years. The conference pointed out that even with increased private investment, a pragmatic combination of all investment resources will be needed, including more Government resources, increased internally generated sector revenues and ODA. Government representatives at the conference emphasized the need to strengthen their capacity to engage with the private sector to enable them to effectively design and negotiate public-private partnerships and to oversee their implementation.

73. It is not enough, though, to argue for a more balanced assessment of the roles that the private and public sectors need to play and to indicate that in many cases there is a need to support public interventions. The magnitude of the investment needs in infrastructure in IDA countries is so high that complacency with the relatively low levels of private investment that we have witnessed in recent years, or with present levels of internal

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<sup>32</sup> In 2004 the respective Sector Boards of the WBG issued operational guidance notes for WBG staff on the roles of the Public and Private Sector in Water Supply and Sanitation, Supply of Electricity Services, Supply of Transport Infrastructure and Services and Supply of Gas Services. The notes caution against one-size-fits-all prescriptions and recommend tailored approaches that take into account country and political economy conditions. For Government-owned utilities, IDA assistance is predicated on demonstrated commitment to reform; the challenge is to help them to improve performance.

resource mobilization within the recipient countries, would be a serious mistake. The WBG needs to develop more effective infrastructure finance tools to assist our clients to mobilize larger amounts of private capital and to continue to engage Governments in a dialogue about investment priorities and utility pricing policies.

74. Regarding private sector involvement, two innovative examples that are of particular interest to poor countries are the Global Facility for Disaster Reduction and Recovery (GFDRR)<sup>33</sup> and output based aid (OBA) schemes that provide contractual assurance to the private sector that investing in the provision of infrastructure services to the poor will qualify for pre-agreed subsidies –paid *after* the delivery of agreed outputs. At present, the World Bank has almost 100 OBA projects under preparation or implementation, and the total OBA portfolio allocated to IDA and IDA/IBRD blend countries amounts to US\$400 million. Recently the WBG helped to establish a multi-donor trust fund, the Global Partnership for Output Based Aid (GPOBA) to support scale up of performance based subsidy schemes. GPOBA has already signed eleven grant agreements, mostly in low-income countries, providing US\$42 million. These are expected to help provide about 1.2 million people with access to water, sanitation, energy, and telecommunication services.

75. **Infrastructure investments need to strike a balance between scale and responsiveness to local conditions on the ground.** In the early decades of IDA activities, support tended to focus on large-scale infrastructure provision, managed by central government agencies. Poverty reduction was expected, but not targeted explicitly. During the 1980s, the “basic needs” approach was adopted. It aimed at bringing a standard package of infrastructure services directly to the poor, but was still centrally driven and lacked knowledge about local conditions. This lack sometimes led to unsustainable, poorly targeted investments, which ultimately failed and undermined the success of the “basic needs” approach. IDA has learned that scale in infrastructure projects cannot be successful without responsiveness to local needs.

76. IDA’s assistance strategy at present combines support for investments that promote scaling-up infrastructure projects with targeted delivery of services to the poor, tailored to their preferences and capabilities. IDA’s approach to providing assistance for infrastructure investments includes consultation and participation of those who will be affected, especially the poor. Here, national and local governments play a central role - infrastructure demands sound planning, effective coordination and oversight. IDA can and does support public institutions to develop the capabilities to carry out these responsibilities.<sup>34</sup>

77. The water supply and sanitation sector illustrates how the principles discussed above are brought to bear in project design. For rural water and sanitation services, IDA has supported decentralized, demand-responsive, community-managed approaches. In towns, IDA support has focused on building autonomous water boards and creating a market for local operators to provide the services needed to plan, maintain and expand systems. In urban centers IDA’s focus is on improving utility performance, identifying opportunities for local operators and small-scale providers, and on serving people in low-income areas.

78. **From the outset, interventions need to be carefully designed to safeguard people and nature.** In the past, infrastructure investment projects were often critiqued for handling mitigation of their environmental and social impacts as an afterthought. As noted above, the WBG has learned that environmental and social dimensions must be integrated early on in the project cycle and monitored throughout project implementation.

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<sup>33</sup> The facility is presently designing an instrument to provide accelerated disaster recovery credit to those countries that take up and institutionalize pre-disaster preparedness and mitigation.

<sup>34</sup> In this regard, see Connecting East Asia: a new framework for infrastructure, 2005, chapter 5.

Since the mid-1990s, IDA has been conducting environmental and social analyses and consulting with affected people throughout the project cycle. Strengthened internal oversight through regional and central quality assurance and compliance units has improved consistency and effectiveness in the application of the Bank's safeguard policies. IDA also has established transparent accountability mechanisms, including an independent Inspection Panel.

79. One example of the effective application environmental safeguards in a challenging operating environment is the Emergency Multisector Rehabilitation and Reconstruction Project (EMRRP) in the Democratic Republic of Congo (DRC). This operation responded to the country's need to restore urgently the infrastructure devastated by the civil war. EMRRP finances rehabilitation efforts for transport, power, water treatment plants, combining investment financing with support to strengthen the capacity of government agencies to formulate, implement, and manage medium and long-term development programs. To develop environmental and social management capacity rapidly in the sectors covered by the EMRRP and to ensure compliance with Bank safeguard policies, comprehensive technical assistance and on-the-job training has been provided to improve sub-project quality and sustainability. An Environmental and Social Management Framework (ESMF) was prepared which serves as a Strategic Environmental Assessment (EA) and the Resettlement Policy Framework (RPF). Specialized consulting experts assist in overseeing compliance with the Bank's safeguard policies in the field. The project also supports implementation of Resettlement Action Plans (RAPs) and sub-project-specific EAs. The intensive environmental and social capacity development approach through on-the-job-training has improved capacity and increased awareness in all sectors involved in the EMRRP.

80. The EMRRP project is also building capacity in the Ministry of Environment (Environment Cell) and financing development of umbrella environmental legislation for the DRC. This project epitomizes good practice in its support for engaging all the relevant agencies in the environmental and social management aspects of project preparation and implementation, and fostered teamwork among them. It demonstrates that compliance with Bank safeguard policies in infrastructure projects can be achieved even in a post-conflict situation, provided sufficient resources are available to manage the safeguard process and to develop adequate environmental and social management capacity in the sectors concerned.

81. **The Governance Environment as Key to Development Impact.** IDA has focused increasingly on the design and implementation of robust governance mechanisms at the country, sector and project levels. This three-level approach is essential to address the inter-connected nature of governance weaknesses in many low-income countries. Governance failures and corruption often result in doing projects with low economic returns, skew resources away from maintenance essential for sustaining services, and are often responsible for poor quality construction of key infrastructure such as roads, water and power systems. A number of approaches and instruments are utilized by IDA to strengthen governance and reduce corruption. Improved budgeting, planning and expenditure frameworks; community-driven and output-based approaches; transparency reforms; audits and consumer perception surveys are several such mechanisms and activities that are strengthening accountability for the use of public (and private) funds for infrastructure.

82. In Angola for example, a multi-sectoral project is addressing infrastructure rehabilitation needs while simultaneously ensuring the transparency of financial decision-making processes through accompanied capacity building and the establishment of a self-regulated Sanctions Board for unprofessional and corrupt conduct.<sup>35</sup> In the power sector, IDA is supporting sectoral oversight agencies to establish frameworks and procedures for

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<sup>35</sup> Emergency Multisector Recovery Project (EMRP, Phase 1 and Phase 2).

evaluation and public disclosure of bids for long-term power purchase agreements, benchmarking key price and risk parameters for comparing bids (e.g., Nigeria and Tanzania). This is to be extended to a number of other IDA countries over the next five years. In the water supply sector, the Water and Sanitation Program has been working at the state/local level in India and the national/city level in Africa and the Mekong Region of East Asia to tailor transparency and accountability mechanisms to local circumstances: (i) supporting local NGOs and city governments in preparing “citizen report cards” that evaluate various aspects of public service quality from consumers’ perspectives to WSS services in several cities in Kenya, (ii) synthesizing findings and lessons learned through numerous field studies on citizens’ voice and accountability mechanisms with a focus on participatory planning approaches, consultation processes, complaint redress systems and public scrutiny of project and budgetary decisions, and (iii) promoting improved, more transparent approaches to planning and budgeting for WSS services at the district and municipal levels.

83. Country wide policy level work remains important, but increased attention is to be placed on sector-wide and project level initiatives to enhance the governance and decision-making processes that are key for improving delivery of infrastructure services at the local level. The WBG’s procurement policies have provided one line of defense against corruption in IDA operations and in many cases the evidence of cost reductions achieved through competitive bidding led borrowers to extend the practice beyond such projects. Considerable progress has been made to strengthen IDA’s fiduciary, investigative and sanctions systems to minimize corruption in infrastructure operations. In India, for example, one initiative is providing the approach and methodology for mitigating the risk of collusion through e-governance procurement systems.<sup>36</sup> In Indonesia, probity in the use of funding is being addressed in an urban development project through the formal incorporation of community members in sub-project management and in monitoring the quality of outputs.<sup>37</sup> The various approaches, designs and implementation arrangements to promote transparency and accountability are being evaluated by IDA and will be adapted and applied more systematically across countries and different types of operations.

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<sup>36</sup> Guidance Notes for Preparation of Transport Sector Governance and Accountability Action Plans

<sup>37</sup> Third Urban Poverty Project - Strategy to Reduce Fraud and Corruption