IV ROLE OF IDA GOING FORWARD: MAKING A DIFFERENCE

84. The foregoing provided an overview of IDA's recent accomplishments and lessons learned in assisting recipient countries to improve the quality and reach of infrastructure services. While there have been some failures and much has been learned through those experiences, on the whole, IDA assistance has been effective in building the capacity of local institutions to better manage basic infrastructure services. Looking forward, there is more that IDA can and should do. This section provides an indication of *what* IDA infrastructure assistance would be used for, *how* it can be effectively utilized, and *how much* is called for to effectively support recipient countries' efforts to realize sustained economic growth and reduce poverty.

IDA's Strengths

85. IDA possesses important strengths that it brings to the design of its assistance programs and the specific projects that it supports, including:

- **credibility and convening power to guide policy development**, which comes from its long experience and ability to support recipients to address policy issues and institutional concerns in the context of its broader analytical work and programs with country authorities;

- **global reach and experience**, which draws from its broad geographical coverage and subject matter expertise and its capacity to assess what may work well in differing country contexts;

- **active programs in most poor countries**, which facilitates the development of regional programs, which in some cases provide substantial advantages over the country-by-country approach;

- **synergies with other WBG organizations** (IBRD, IFC, WBI and MIGA), as well as with Bank administered programs such as GEF, Carbon Fund, ESMAP, PPIAF and Water and Sanitation Program, which broadens the menu of instruments available to recipient countries; and

- **concessionary terms of the assistance that IDA provides** which is essential for financing many types of infrastructure investments that are public goods or have significant positive environmental and social externalities.

86. **IDA's convening power to guide policy development** is reflected in the role IDA plays in supporting recipients in the formulation and execution of policy reduction strategies (PRSps) and associated medium term expenditure plans. This type of activity as well as those dealing with region-wide sectoral development strategies (e.g. Connecting East Asia-A New Framework for Infrastructure) and sector wide approaches (SWAps) at the country level brings donors, government, and private and civil society stakeholders together to inform the development process and the content of assistance. This is exemplified by Poverty Reduction Support Credits (PRSCs), which are a form of development policy lending. This type of assistance often draws together multiple donors, utilizes country systems and finances own-country budget execution. PRSCs support the recipient country's program to implement its poverty reduction strategy. This approach typically involves a series of in-

dividual credits. PRSCs are usually disbursed based upon an agreed set of actions and generally focus on economy-wide policies, but increasingly such instruments also address policy and institutional issues within the infrastructure sectors such as water supply, energy, rural transport, and telecommunications.

87. The **Uganda Poverty Reduction Support Credits** (PRSCs) are an example of IDA assistance for a well elaborated set of development programs through a series of single-tranche operations that support the implementation of Uganda's Second Poverty Eradication Action Plan (PEAP). One focus of the PRSCs has been to promote systematic reforms in the water and sanitation sector to scale up sustained access to safe drinking water and sanitation services and, in particular, to expand services to those who currently do not have or cannot afford such services. The cumulative results of this programmatic, sector-wide approach have been impressive, placing Uganda on track to meet its WSS MDG targets of supplying 72% of the population with water and 71% with sanitation by 2015. In rural areas 3,000 new water points are being delivered annually and the Government exceeded its target of increasing access to safe water and sanitation. Based on new operational procedures, at least 80% of systems are operational and average time spent collecting water was reduced from 30 to 25 minutes. In urban areas 10,000 new water points are being delivered annually, 81% of fully functional WSS systems are being operated and managed by private service providers in 2004, and average time spent collecting water was almost cut in half. Resources to the sector have tripled in less than ten years. The Government is progressively deepening reforms in the sector and has enhanced sector coordination and stakeholder consultation. This has laid the foundation for subsequent programmatic, sector wide support. Donor coordination and harmonization with Uganda's own financial management systems have been strengthened. Arrangements are in place to monitor program effectiveness and monitoring protocols are being established to draw on the routine returns from districts, annual household and service delivery surveys to better measure results.

88. **IDA's global reach and experience** facilitates the sharing of knowledge across sectors, countries and regions on how to improve infrastructure services in varying, often difficult, circumstances. Some countries welcome drawing on the experience of middle-income countries (MICs) that faced similar challenges, and the opportunities for South-South cooperation that IDA can facilitate (an example is the involvement of the South African railway company in the Ugandan-Kenyan railway reform). Such knowledge sharing can empower consumers, challenge operators to improve their performance, and inform national and local governments on what works and what does not. These same attributes have positioned IDA to effectively support multi-country programs that have become more prevalent, particularly in Africa, to address issues that go beyond national boundaries such as river basin management and power interconnection. A recent Independent Evaluation Group (IEG) review of regional programs concluded that regional programs offer substantial potential to achieve results on development issues that affect neighboring countries and the majority of programs evaluated were found to be effective. Regionally coordinated transportation development, for example, can help the landlocked countries to connect to wider markets through neighboring countries. Finally, IDA's involvement and expertise in most sectors also facilitates multi-sector interventions, such as trade and transport facilitation operations and hydro-power development, which continue to grow in importance.

89. As of March 2007, the Africa Region's regional integration portfolio included 19 projects, of which four are Global Environment Facility (GEF) projects, for a total IDA/GEF commitment US$1.1 billion. The portfolio size more than doubled in two years. Besides its role in capacity building and institutional strengthening, the IDA pipeline of regional integration projects has been growing rapidly and currently stands at more than $2 billion of projects to be financed over the next three years, most of which are infrastructure operations in transport, energy, water, and telecommunications.

90. A notable example of the regional programs supported by IDA is the Nile Basin Initiative (NBI). The ten African riparian states of the Nile Basin launched the Nile Basin Initiative in 1999 to pursue the cooperative and sustainable development of the Nile, the world's longest river. Reversing long-standing tensions over this critical shared resource, this initiative is directed at jointly managing and developing the common Nile waters to realize and equitably share the substantial benefits in terms of economic growth, social development, environmental management and regional integration.

91. Under the NBI, a suite of basin-wide projects provide the foundations for joint management of resources and coordinated development of infrastructure. Studies are currently underway to assess options for regional power trade, hydropower infrastructure, watershed management, and agricultural trade among others. At the same time, a first set of investment projects will generate early benefits. Projects directed at flood preparedness and early warning systems, irrigation, power interconnection and river basin management will reduce the vulnerability of plain dwellers to floods, improve agricultural productivity and rural livelihoods, reduce power generation costs, and meet local needs for clean water and erosion abatement while providing a framework to jointly develop small trans-boundary catchments.

92. Equally notable, the NBI has also provided the basic institutional capacity to move forward and pave the way for IDA to effectively respond to demand from these countries for financing critical infrastructure: anticipated IDA investments are US$200 million in FY07-08, US$500 million in FY09-10, and US$2-3 billion in FY11-12. Funds will be directed to larger scale multi-purpose water infrastructure for irrigation, flood management, and hydropower, with associated catchments, environment and social development activities.

93. **Synergies with other member institutions of the World Bank Group.** IDA assistance has increasingly been leveraged with that of the IFC and MIGA**,** as well as with the GEF and carbon fund, to support innovative operations in low-income countries. Each institution possesses distinct competencies that complement one another. IDA provides expertise in public sector engagement, environmental management and sector policy and institutional design; IFC brings strengths in financial structuring/credit assessment and strong investor relationships; and MIGA has the experience and market contacts to provide risk mitigation and investment climate advice. Combining these competencies with the different instruments each institution possesses affords recipient countries a menu of assistance options that can be tailored to their particular circumstances. WBI has complemented the lending efforts of the other WBG arms by providing training on how to best promote private-public partnerships in infrastructure, disaster risk management and city management.

94. There are many examples of these synergies in action. One is provided by the Senegal Kounoune Power Project (2005), which was supported by a combination of IDA credits (US$15.7 million), IDA policy risk guarantee (US$7.2 million) and IFC "A" loan (US$22 million). Another demanding operation, the West Africa Gas Pipeline (2004), was supported by an IDA partial risk guarantee (US$50 million) and a MIGA guarantee (US$75 million). Similar collaboration can be seen in the Kenya-Uganda Railways Project, off-grid renewable energy systems in Bolivia, and the recent Bujugali hydropower project in Uganda. In the latter case, of the total estimated project cost of US$799 million, the World Bank Group is providing support through US$130 million in loans to the private project company, Bujugali Energy Ltd. (BEL), from IFC, a partial risk guarantee of US$115 million from IDA; and an investment guarantee of US$115 million from MIGA. A similar example is the 1070 MW Nam Theun 2 hydroelectric project in the Lao PDR (2007). This project, supported by IDA and MIGA, will enable the Lao PDR to export 995 MW of electricity-generating capacity and electrical energy to the Electricity Generating Authority of Thailand and will also supply 75 MW of electricity

for domestic use in Lao PDR. The project is expected to generate annual revenues to the Government averaging about US$30 million (nominal) per year during the first ten years while commercial debt service is paid, then rising sharply thereafter to an average of approximately US$110 million (nominal) from 2020 to 2034. If the revenues are spent efficiently and transparently – in accordance with project agreements – this project would provide significant support to Lao PDR's poverty reduction and environmental management efforts.

95. **The concessionary terms of IDA assistance** are of significant importance for infrastructure. Infrastructure investments are often targeted to the production of public goods (for example, roads or sanitation) for which may not be feasible to charge users, and where even O & M costs pose a financing problem as governments rely on taxes or grants to fund them. Other types of investments which generate services that can be charged (such as networked water supply and electricity) tend to have long payback periods which exceed the tenors available from market financing. In addition, many infrastructure services have important environmental and social benefits, the costs of which are difficult to recover through user charges and betterment levies, and hence require some degree of support from public finance (and aid) to ensure their provision. Finally, many low-income countries face the challenge of needing to significantly expand access, which presents very large financing needs, and –even abstracting from country risk considerations- it is likely to be beyond their capacity to access such amounts commercially.

96. The challenge ahead. The infrastructure investment gap faced by low income countries argues for an expansion in IDA assistance if access to basic services is to expand at a rate sufficient to make a difference to the billions who currently do without. It is clear, however, that IDA cannot close the gap alone but rather will require mobilizing resources from all possible sources including private and domestic public resources. Lessons learned through IDA's close working relationship with recipient countries can help countries to improve domestic resource mobilization, select investments based on sound criteria, and manage them on a sustainable basis. In this regard, IDA can play an important role by directing a large share of assistance to those countries that are taking concrete action to improve the efficiency of their sectoral agencies and service providers and to put in place programs that effectively reach the un- and underserved poor. IDA is well placed to mobilize development assistance beyond the resources it directly provides by structuring co-financing arrangements, facilitating access to other sources of aid and providing risk mitigation options to attract private finance.

97. It will be equally important to continue to support expanded private sector involvement in countries and sectors that are attractive to private investors by strengthening the policy, oversight and regulatory institutions that interact with the private sector and state-owned operators alike. IDA can and should lead by example, through an enhanced assistance program, conveying the value of expanding support for infrastructure to accelerate and sustain growth and reduce poverty. The following outlines the areas where IDA assistance would focus, how much assistance is needed and how such assistance would be deployed at the regional level.

Sectoral priorities

98. In the **transport sector** there will be three main priorities: (i) improvements in transport accessibility for poor rural communities through improvements in the management and maintenance of the rural roads net-

work (within this program more attention will be given not only to infrastructure but to the performance, affordability and inclusiveness of transport services that use road infrastructure and to its use by non-motorized forms of transport); (ii) overcoming physical and institutional transport bottlenecks to regional and international trade in goods and services (more diversified support will be given for development and institutional reforms in freight logistics infrastructure such as railways, ports and inland waterways as well as roads), which will be particularly important for land-locked nations and small island nations; and (iii) to increase engagement in the urban transport sub-sector to reflect the development challenge posed by the combined effects of population growth, urbanization and motorization. This will involve support for an increase of investment in and efficiency of urban transport in general, with special emphasis on urban public transport. Analytic and advisory services and country dialogue will support capacity building in urban transport administration.

99. In the **water related sectors**, improving provision of urban water supply and sanitation services will remain a central focus, driven by the continued rapid pace of urbanization. During IDA-15, improving governance, utility management and operational efficiency and M&E will remain cross-cutting focal points for IDA assistance. Sanitation and hygiene are expected to increase in importance, whether as components of projects or as stand-alone operations. IDA will continue to expanded assistance for water resource management, responding to growing concerns for water scarcity in many poor countries. As regards agricultural water management, there will be a particular focus on modernizing existing irrigation systems, strengthening cost recovery where feasible, and improving linkages to input supply and marketing chains, increasing water productivity, deepening stakeholder participation and good governance (in particular by establishing and strengthening water users' associations), and promoting the active participation of the private sector. This comprehensive approach to water management will be facilitated by recent internal WBG organization changes that placed all water related activities within the same management unit at the regional and central vice presidencies.

100. In the **energy sector**, the overarching objectives will be to promote energy access for enterprises and households (through electrification programs and increased generation capacity, including through regional projects), to connect public facilities such as schools and clinics, and to meet basic energy needs of lighting (by equipping unconnected households with affordable, modern lighting) and cooking (through clean, sustainable technologies and fuels for cooking and heating). The challenges are to facilitate the investments needed to achieve these objectives and to improve the reliability and quality of supply to existing customers. For both these purposes, there is a need to improve the operational efficiency of utilities and to reinforce good governance. Improving efficiency calls for a range of measures to be implemented, including competitive procurement of new projects, optimizing network design to incorporate low-cost technologies, alignment of tariffs with economic costs (while allowing for targeted subsidies to poor households) and improved commercial practices to reduce non-technical losses.

101. In post-conflict countries such as Sierra Leone and Afghanistan, IDA assistance will remain focused on reconstruction and rehabilitation of power assets that were destroyed. In countries facing power shortfalls due to drought conditions (e.g. in East Africa), IDA will focus on emergency capacity additions while helping the longer term planning to diversify supply sources. In countries with high potential for increased private sector participation, IDA should help to improve sector governance to facilitate private sector investment, and where appropriate should provide funding and guarantees to leverage private sector participation.

102. In the **Information, Communications and Technology (ICT) sector**, the central challenge is to continue expanding access. Although more than 3 billion people have access to mobile telephony today, there are

still major gaps, particularly the persistent urban/rural divide and the slow expansion of broadband connectivity. Improving access to telephony and to broadband connectivity has been shown to contribute significantly to productivity gains as well as to growth, social inclusion, effectiveness of public services (through e-government and e-development services) and good governance. In addition, new technologies hold important opportunities for low-income countries that are not adequately addressed by traditional regulatory frameworks, and IDA should explore innovative approaches to address this issue. Finally, beyond the access agenda, IDA should assist its members to mainstream and harness the power of technology as an enabler across sectors. Technology is a driver of efficiency and productivity gains across sectors and creates business opportunities for the poor. The ICT strategic approach will revolve around three pillars: (i) access to the information infrastructure, (ii) mainstreaming (for the delivery of public and private services), and (iii) innovation (ICT enabled services and entrepreneurship).

103. Regarding **natural disaster risk management,** IDA will follow-up on the Hyogo Framework for Action adopted at the UN World Conference on Disaster Reduction, held in Japan in 2005, which seeks to substantially reduce disaster losses by 2015. The WBG has recently launched a Global Facility for Disaster Reduction and Recovery which seeks to mainstream hazard risk reduction into development plans. In addition, a new set of challenges is likely to become more pressing in most IDA countries and therefore will need to be confronted: the potential vulnerability of many poor countries to the negative impacts of global warming could be reflected in higher incidence of natural disasters such as tornadoes, as well as in drought and floods affecting lies and property. Increasing trends in vulnerability and consequent disaster losses will have to be reversed through strategic interventions in disaster prevention and preparedness.

104. An example of the latter issues is provided by the study that the IDA supported in India in 2005 ("India Water Economy: Bracing for a Turbulent Future").

> *"…there are strong indications that climate change is likely to affect India in a number of ways. There is little uncertainty about some of these impacts. As global temperatures continue to rise, they will affect the "water banks" (glaciers) which are a prominent part of the Himalayan water systems… the effect is likely to be substantially different in different areas… In addition, … there will be a decrease in the number of rainy days, but substantial increases in extreme precipitation events. What does seem likely is that climate change will increase the variability of already highly variable rainfall patterns, requiring greater investments in managing both scarcity and floods".*

Regional Priorities: An Overview

105. During the IDA-14 period, significant progress has been made in building up the capacity of IDA and its clients to effectively design and implement policies and programs which deliver results. A key element of the scale-up of IDA assistance under the Infrastructure Action Plan (FY04-FY06) was the deepening of coverage and quality of analytical work and policy dialogue on many facets of infrastructure development. Non-lending assistance and expanded technical assistance within lending operations, has served to clearly define priorities and approaches as well as the mix of IDA assistance instruments most beneficial in particular country contexts. Infrastructure assistance priorities are generally well reflected in Country Assistance Strategies (CAS), which ultimately determine the sectoral composition of the lending program as well as the, specific instruments to be deployed.

106. IDA allocations follow a country-based model and their sectoral composition is determined at the country level through the CASs. As many CASs are to be prepared during the course of IDA 15 there is an element of uncertainty regarding projections for infrastructure assistance. Based on information that is available through bottom up estimates of needs and utilization at the regional level, total IDA assistance for infrastructure across all regions should rise to $5.3 billion per year during the IDA-15 period[38]. This represents a 15%-20% nominal increase over IDA 14 assistance levels. This amount is in line with present assistance commitments for FY07, estimated at $ 5.1 billion, an indication that such funding levels can be effectively utilized by recipient countries as they seek to scale up access to basic infrastructure services. Moreover, this level of assistance represents a small proportion (less than 5%) of the infrastructure investment needs of low income countries, and therefore does not imply excessive reliance on IDA as a source of funding. They underpin a strong case for a modest increase in resources to be committed to the infrastructure sector under IDA-15. An indicative regional allocation is summarized below, based on prospective business plans of the managing units:

REGION	**IDA-15 INFRASTRUCTRURE ASSISTANCE ($ millions per year)**
AFRICA	3000
SOUTH ASIA	1335
EAST ASIA	800
OTHER REGIONS	165
TOTAL	**5300**

107. The majority of IDA resources are to be directed to Sub-Saharan Africa, followed by South Asia where lack of access to basic infrastructure services is most acute and where their absence acts as a binding constraint on broadly shared economic growth. The countries of East Asia as well as Central Asia and Latin America/Caribbean face similar gaps, for which stepped up IDA supported is warranted, albeit of a lesser absolute magnitude. The following section provides an overview of the main directions IDA support is to take in those regions which account for more than 80% of IDA assistance: Sub-Saharan Africa, South Asia and East Asia and the Pacific.

Regional Priorities – Sub-Saharan Africa

108. The recent Africa Action Plan Update (April 2007) outlines specific goals and targets for three main infrastructure priorities. These are: (i) improving access to and reliability of clean energy; (ii) expanding and upgrading road networks and transit corridors; and (iii) increasing access to safe water and sanitation.

109. Expanding reliable access to clean energy for enterprises and households is central to IDA's infrastructure strategy in Sub-Saharan Africa. IDA will focus on mobilizing finance for sector-wide approaches for energy, including raising donor and private financing through sector syndications in pilot countries by FY10. Energy reforms will target reductions in power outages, an improved energy business climate, and reductions in wholesale power supply costs through regional power grids (such as the West Africa Power Pool). Initiatives

[38] These estimates are of IDA assistance *needs* for infrastructure during the IDA 15 period. The formal request for IDA financing will be provided separately in the IDA 15 Financing Requirements Paper, to be distributed to the IDA deputies at the 2nd Deputies Meeting in Maputo, Mozambique, currently scheduled for June 2007.

related to clean cooking fuel will be incorporated. Innovative financing instruments and continued collaboration among all members of the WBG will be needed to support this effort. These efforts are expected to increase generation capacity by 20 % or more in at least 30 countries by 2012, reduce the technical and non-technical losses of utilities in 20 countries, and increase LPG and kerosene use by households. The anticipated outcomes are: to increase access to electricity from 23% to 35% of the population region-wide by 2015; to decrease the number of power outages suffered by enterprises in a typical month in 20 countries; and to reduce indoor air pollution through use of LPG and kerosene by households[39].

110. To achieve the second goal, the interventions in the transport sector will principally focus on decreasing the cost and time to reach key international markets and improving access to markets via all season roads. IDA will focus on the institutional framework for urban and rural transport in six countries and launch initiatives to support three major regional transit corridors by FY08. Trade corridor financing operations that connect land locked countries to the sea (two in West Africa and one in East Africa) target decreased time and cost to reach trade entry points through a combination of customs reforms, transit traffic enforcement, road rehabilitation, and port clearance improvements. About 20% of investments are for rural roads. These efforts will be complemented by a redirection of Bank sector programs toward maintenance of transport infrastructure and support for urban transport. The program will increase the resources allocated to road rehabilitation and maintenance by 25% and deliver 30,000 km of roads (including 14,000 km or rural roads) by 2013. The anticipated outcomes of Bank and partner efforts are to increase the share of improved roads ─ currently 45% for the seven countries with data in 2005 ─ and to increase the percentage of the rural population within two kilometers of an all-season road from 35% for ten selected countries.

111. In the water supply and sanitation sector (WSS) , the aim is to support recipient governments to achieve the MDG targets for WSS in 17 of the largest countries (representing 75 percent of the population), which have demonstrated a commitment to put in place sound policies and institutions to support their sectoral development programs. IDA will continue its strong water partnership with the AfDB and other multilateral and bilateral partners. Investments in water supply and sanitation have increased from $500 million in IDA13, to $750 million in IDA14, to potentially $1,050 million in IDA15. One focus of this program is to improve recovery of operating costs by urban water utilities in recipient countries with the goal of significantly improving financial and operating efficiency across the board with a majority of urban water utilities covering at least current costs. The anticipated outcome of Bank and partner efforts is to increase the number of people with access to water by 2.5 million annually (IDA 14), and potentially 3.5 million annually (IDA 15). Africa has been at the forefront of innovation in water and sanitation for the last twenty years, seeking ways of providing sustainable ser-

[39] An energy crisis is now affecting almost half of the countries in Africa, slowing down growth and hindering achievement of the MDGs. The crisis has many causes, including inadequate tariff levels, the drought in East Africa, destruction of systems in conflicts, poor utility management resulting in inappropriate investment choices and excessive technical and commercial losses, and finally serious under-investment in energy in the 1990s and early 2000s. Today, the pent-up investment needs in Africa's energy sector are enormous. The WBG's recently-completed Investment Framework for Clean Energy and Development predicts that Africa will need to invest $4 billion per year to bring power access rates up from 24% today to 35% by 2015 and 47% by 2030. Private sector interest in power is reviving and the WBG is working with IFC and MIGA to negotiate risk-sharing terms that will elicit private interest as well as to seek private sector participation in the sector. In this context, IDA has more than doubled financing for energy projects in the last five years, aiming to leverage private sector resources to the greatest extent possible, while also recognizing that hydropower projects bring special challenges, including long gestation periods, high development costs, and intense public scrutiny. WBG is also helping to support regional energy interconnections and power pools, so that energy-poor countries can import electricity from energy-rich neighbors for much lower prices per kwh.

vices to a very poor population. The biggest challenge going forward is to secure the financing and build the capacity that is needed to scale up tried and tested implementation arrangements. This means strengthening the public sector to manage expanding sector programs and supporting the local private sector to provide the goods, works and services needed to plan, construct and maintain facilities.

112. In line with its comparative advantage, IDA will work with the African Development Bank and multi-lateral and bi-lateral partners to support the establishment of national WSS programs by facilitating the harmonization of institutional, implementation, and capacity building arrangements, and by financing hygiene and sanitation promotion plus new and improved water supply facilities. IDA assistance in individual countries will be designed to complement that of other donors to ensure that investments in rural communities, towns and urban centers are balanced, and capacity building is directly addressed at all stages

113. Regional economic integration will depend on the expansion of infrastructure services, including investment in transmission links to facilitate power trade in the Eastern, Southern and Western Africa Power Pools; critical infrastructure for transport and trade facilitation along the Southern and Western Africa transport corridors; hydraulic control and management facilities for water resource management in key basins (e.g. Niger, Nile, and Senegal Rivers); and regional communications infrastructure to reduce the cost of internet usage and international communications.

114. To realize these ambitious goals, sustained IDA funding for infrastructure programs in Africa at the US$3 billion/year level throughout the IDA-15 period is required. IDA and its client governments have demonstrated the capacity to effectively process and utilize this level of resources recently. Indeed, at current funding levels, there is clearly unsatisfied demand both for national and regional infrastructure operations. It is expected that within this overall amount, roughly one third of IDA assistance would go to transport, one third to power, and the remaining third to water, sanitation and urban development, with a small, albeit important sum going to modernization and expansion of ICT services. Around 30% of IDA assistance is to be delivered through regional integration projects.

Regional Priorities - South Asia

115. South Asia faces many challenges in developing the infrastructure platform necessary to sustain recent high rates of economic growth and to share such growth broadly across the population. Surveys of the investment climate confirm that poor infrastructure services, particularly power and transportation, are perceived as major constraints to doing business. More firms in South Asia rely on "self"–generators than do their competitors in China and South East Asia. Transport networks are weaker than among the region's main competitors (with the result that the average business in the region holds a larger stock of inventory than businesses do in Brazil or China). There is not a single city in South Asia that can supply water 24 hours a day to its residents. Much of the burden of the infrastructure deficit falls on the poor because they are most likely to lack access. Those that do have access often receive the worst service; and people residing in rural areas are overlooked as the expansion of modern infrastructure has been precluded by poorly functioning utilities and transport agencies. Closing this gap and investing to maintain a 7.5% rate of GDP growth would require investments in infrastructure amounting to about 5% of GDP plus a further 2% of GDP for capital replacement. In a few sectors private investment is expected to continue at a brisk pace (e.g., telecoms and ports). However, for most sectors and in most localities, the public sector will continue to play a central role in financing infrastructure investments. These investment estimates incorporate key targets such as the MDGs for water and sanitation, as well as national level targets for rural connectivity (for example as set out in India's Bharat Nirman).

116. As well as addressing the investment gap, it is critical to ensure that the service delivery gap is addressed. In the past, a predominant focus of entities responsible for infrastructure service provision – from roads to electricity to water and sanitation - was often on the creation of physical assets than on the efficient and sustained provision of services of the quality demanded by consumers. Multilaterals such as IDA have and will continue to support sector-wide reforms and effective service delivery models and arrangements to address this service delivery gap.

117. Estimated IDA-15 assistance needs across all sectors for six South Asia countries (Afghanistan, Bangladesh, India, Nepal, Sri Lanka and Pakistan) total almost US$12 billion, (USU$11.8billion) or 9% higher than the estimated IDA-14 utilization of US$10.8 billion. The estimates are based on the actual expected utilization for IDA-14 (including carryover) and IDA's current share of development assistance for each country. Multilateral programs, such as IDA, will continue to play an important role in funding infrastructure in the IDA-only countries in the region, as well as supporting investments in rural and remote areas in the IDA/IBRD blend countries, and important sector-wide policy and institutional reforms. During the IDA-15 period, around US$4 billion (US$1.4 billion/year) would be dedicated to infrastructure, covering energy, irrigation, water supply and sanitation, and transportation.

118. In blend countries (India and Pakistan), where IDA resources are capped, the focus is on supporting growth and competitiveness (especially in lagging states and provinces); improving governance and service delivery; improving living conditions and protecting the vulnerable, particularly in rural areas. IDA assistance will focus on rural roads and rural water and sanitation. In countries in political transition (Bangladesh, Nepal and Sri Lanka), IDA resources will be directed at improving sustainability of and access to services, particularly in power and roads, again predominantly in rural areas, where communities are taking a stronger role in their planning, design and oversight. These initiatives would build on the innovations that IDA has supported in these countries under IDA-14 in expanding access to modern infrastructure services and introducing sector-wide reforms targeted at strengthening the financial, operational and fiscal performance of service providers.

119. In a conflict affected country like Afghanistan, IDA-15 resources would be directed at strengthening state capacity, rural economic development and livelihoods, and private sector development. Sustainable expansion of infrastructure networks will continue to be a central pillar for accelerating progress in each of these areas.

Regional Priorities - East Asia and the Pacific

120. Future IDA assistance for infrastructure will focus on expanding access to basic services (particularly in lagging regions); power, transport and water infrastructure and management systems to support economic integration of the Greater Mekong Region; addressing service delivery gaps in vulnerable states (Pacific Islands, Papua New Guinea, Timor-Leste) in collaboration with AusAID; and disaster recovery and risk management. Project pipelines are developed only about two years in advance and infrastructure projects totaling US$541 million have already been identified for FY09. Additional IDA resources could be well utilized by increasing the scale (number of villages, kilometers of roads) and scope (inclusion of additional sub-components), by about 50%. Regional financing needs for infrastructure far outstrip available resources, particularly in Vietnam, Indonesia, Mongolia, and Cambodia to meet basic infrastructure needs in the energy, transport and water sectors.

120. By way of illustration, Vietnam could effectively translate considerably more IDA resources into badly needed service improvements. For WSS, despite major advances in commercial operation of many of its water utilities, their investment strategies remain largely dependent on the availability of concessionary financing. Although significant progress has been made toward achieving the transition to greater self-financing, increased IDA financing in the near to medium term would permit faster progress towards getting the sector on a financially sound footing. In the transport sector, Vietnam has a good track record of addressing poverty alleviation through rural transport services and corridor development. Increasing the scale of planned projects would help drive growth and poverty reduction. Despite considerable progress in rural electrification, many Vietnamese people remain without access and the expansion of generation and transmission capacity to meet demand growth poses financing difficulties for the electricity utility. A large increase of IDA resources for Vietnam's infrastructure development would be well utilized in services that are critical to supporting and sustaining the country's credible track record.

121. Fostering greater regional integration of the Mekong Region is a shared priority among the riparian countries and the international development community. At present only very modest levels of IDA funds are directed toward integrating energy markets and this should be scaled up. IDA would also expand the scope and size of transport integration projects (including major highways), in partnership with the ADB, provided institutional, social and environmental management concerns are adequately addressed. Taking into account both the scope for expansion and the implementation issues to be addressed up front, assistance levels of US$100 million per year could be well utilized for regional integration activities.

122. In the Pacific, Papua New Guinea and Timor-Leste, the small scale of projects has made project preparation relatively expensive. However, AusAID is preparing to expand its infrastructure exposure with an "Infrastructure for Growth Initiative" estimated on the order of $600 million over four years, much of which relies on IDA co-financing. The availability of grant funds to assist in project preparation and financing should help

expand the scope of IDA assistance in the Pacific, Papua New Guinea, and Timor-Leste to US$50 million per year.

123. Taking together these priorities for upgrading the quality and reach of infrastructure services in East Asia and the Pacific, an increase in IDA assistance is needed to around US$0.8 billion per year.

Conclusion:

124. Considerable progress has been achieved in many low-income countries in improving the basic infrastructure services that are essential for supporting growth and reducing poverty. Despite these achievements, billions of people around the world still have to cope with inadequate services. Substantial service delivery and access gaps remain and narrowing them will require greater efforts on the part of recipient countries and the international community alike. Across regions, infrastructure now features prominently in recipient country development and financing plans and many of their sectoral programs embody innovative approaches to ensuring that services reach the poor and reduce costs of goods and services economy wide.

125. Yet, these countries face a very substantial mismatch between their infrastructure development needs and their public financing capabilities which will diminish only gradually over time, provided they are able to sustain growth over the medium and long term. Sustaining economic growth and sharing its benefits broadly requires a minimum platform of basic infrastructure services to connect people and markets and raise productivity and living standards, especially among the poorer segments of the population. Indeed, achieving many of the health, education and gender targets of the Millennium Development Goals requires accessible, well functioning infrastructure services to effectively reach the billions of people who presently lack critical social services.

126. International aid and IDA specifically can and should play a central role in helping narrow this gap, not only in terms of augmenting financing capabilities of countries with limited sovereign debt service capacity but also in supporting recipients to improve the efficiency of resource use, sectorally and economy wide. IDA has been and will continue to be an important component of the aid architecture for infrastructure development. It possesses several unique attributes and strengths among development agencies in terms of its breadth of geographic and technical expertise, complementarities among its assistance instruments and longstanding experience in working with recipient countries to address the challenges they face to providing basic infrastructure services to their people.

127. Over the past decade, particularly during the IDA-13 and -14 periods, much has been learned about how to address the infrastructure deficit in low-income countries. IDA has taken on these lessons in its operations and advisory assistance. This has strengthened the development effectiveness of IDA assistance. Equally important, many countries have invested major efforts to put in place sound sectoral policies and institutional arrangements and are strengthening local capacities to effectively scale up provision of basic infrastructure services. As a group, these countries are well positioned to translate increased IDA assistance into sustainable infrastructure service delivery and make a real difference in people's lives.