Developing Countries and the Financial Crisis: Infrastructure Diagnostic Tools

The Diagnostic Tools are part of a broader effort of the World Bank’s Sustainable Development Network (SDN) aimed at enhancing the analytical tools to provide rapid assessment of the impact of the crisis on infrastructure and design diagnostic tools to support the design and implementation of infrastructure investments as part of the Infrastructure Recovery and Assets (INFRA) Platform. The INFRA Platform has been developed to bridge infrastructure financing, project preparation, and capacity gaps resulting from the global financial crisis. The Platform comprises a rapid Diagnostic Tools (described below), a concessional financing window to support the preparation and financing of projects, initiatives for parallel and donor financing, and a common reporting system. More information is available at www.worldbank.org/infra.

Background

In the context of the current global financial crisis, developing countries and donors need better information to be able to undertake a more systematic evaluation of a country’s needs, opportunities and institutional capacity to absorb substantial stimulus resources effectively. As one of the innovations with respect to the World Bank’s response during previous financial crises, the INFRA Platform includes a package of quick-response diagnostic tools that can help donors and clients to identify countries at risk, by assessing issues of fiscal space, infrastructure gaps and institutional absorptive capacity and, projects at risk, by assessing issues that could affect projects under implementation.

The diagnostic tools can be used by donors to ensure a better and more expeditious allocation of international assistance, particularly in the context of INFRA, through:

- Development of broad country typologies, and identification of critical country cases and policies that apply to different country typologies, to guide and prioritize donor action.
- Access to INFRA concessional resources. INFRA is conceived as a donor platform, and consistent criteria are necessary for vetting countries interested in getting access to INFRA resources.

In addition, the diagnostic tools can be used by developing countries to drive their fiscal stimulus measures, as ready guides for sector planning; cross-sector prioritization; regulatory assessments and reform; and decision on the sequencing of project investments, through:

- Benchmarking, country comparisons along specific variables;
- Solid foundation for country diagnostics, strategy, and budget support;
- Impact evaluation, at the country, sector and subsector level;
- Standardization and sharing of information, to facilitate rapid response, and improve consistency and complementarity across donor agency interventions.
Structure of the Diagnostic Tools

The infrastructure diagnostic tools include two key components: (a) the Strategic Country Review, which has economy-wide and cross-sectoral scope; and (b) the Infrastructure Portfolio Assessment Review, which has a specific sub-sector and portfolio focus. The two components are complementary and mutually reinforcing, but they can also be applied separately, depending on the country needs:

**Strategic Country Review.** The purpose of the Strategic Country Review is to help to address the question whether and how a country can effectively utilize a fiscal stimulus channeled through infrastructure investment to restore growth on a sustainable basis. The modules include:

- **Module 1: Assessment of Economic and Financial Constraints to Fiscal Stimulus**, assessing the country’s ability to finance the infrastructure fiscal stimulus program without unduly jeopardizing the sustainability of its macroeconomic balances
- **Module 2: Assessment of Infrastructure Gaps, Actual Spending and Deficits** namely, the room for removing key infrastructure bottlenecks to growth and to prioritize infrastructure projects based on their ability to satisfy critical needs and to generate sources of local employment and income. This module includes questions on:
  a. Infrastructure investment needs
  b. Prioritization of public spending in infrastructure
  c. Revenue mobilization
  d. Private sector participation in infrastructure
  e. Infrastructure and Job Creation
- **Module 3: Assessment of Quality of Institutions**, namely, the country’s capacity to absorb the fiscal stimulus effectively, scaling up public expenditure while protecting vulnerable groups. This module includes variables covering:
  a. Budget execution capacity
  b. Decision making process
  c. Legal and regulatory framework
  d. PPP contractual framework

**Infrastructure Portfolio Assessment Review.** The purpose of the Infrastructure Portfolio Assessment Review is to understand the factors affecting the operation of specific infrastructure subsectors in the context of the crisis, and to identify the country’s priority infrastructure investment pipeline against the countries’ economic and social goals. The Infrastructure Portfolio Assessment Review includes components:

- **Module 1: Demand Analysis:** Building on the economy-wide assessment in the Strategic Country Review, this subcomponent looks at the needs and demands in specific subsectors and how they may have changed in the context of the financial crisis.
- **Module 2: Supply Analysis:** This subcomponent explains the key specific economic and technical features of the subsectors, and provides a snapshot of the subsector’s project and program portfolio, including the degree of completion of the projects and their financial status.
- **Module 3: Benefits and Risk Screening of Priority Projects:** Along the lines of the Strategic Country Review’s “Rapid Review,” a limited selection of subsector and project variables can provide the basis for a quick assessment and prioritization of projects.