**Term sheet - INFRA TF**

**INFRA Project Preparation Trust Fund**

**DRAFT FOR DISCUSSION**

**Purpose of the fund:** The global economic and financial crisis is having a severe impact on infrastructure services in developing countries, as governments are faced by shrinking resources and private financing flows are declining. For example, growth projections for Africa were recently halved and Africa recent economic achievements are severely threatened by the crisis. G20 Leaders in their April 2 statement have specifically identified infrastructure as a sector that requires support in both developed and developing countries. However, in developing countries, available funding is insufficient to finance new and ongoing infrastructure projects, which are critical to adequately continue serving the population, stimulate job creation, protect green investments, and preserve growth in response to the crisis. The WBG, in cooperation with key Donors and MDBs, has developed the **Infrastructure Recovery and Assets Platform (INFRA)** Platform. Specific attention is being paid to Africa, and an **Africa INFRA Program** is also being developed to finance a package of high priority, high return infrastructure investments, with a clear focus on regional projects to help provide linkages to regional and international markets. Given that financial resources are diminishing, client countries have also approached the Bank to seek support for project financing and for the preparation and evaluation of infrastructure projects at risk of being shelved. IFIs and Donors also lament the lack of readily available funding to quickly respond to client country demands for project identification and preparation.

Within this context, the proposed INFRA TF seeks to assist developing countries client countries to: (i) prioritize infrastructure projects, based on the projects’ ability to stimulate growth, support the recovery, and create jobs; and (ii) prepare priority infrastructure projects.

**Type of Fund:** Multi Donor Programmatic Trust Fund

**Use of Fund:** The INFRA TF will be available for two key activities of the INFRA Platform: (i) country and sector diagnostic activities, due diligence and INFRA monitoring; and (ii) project preparation activities. In particular, INFRA TF will fund:

(i) **The implementation of the INFRA Diagnostics Tools, Due Diligence and INFRA Monitoring.** INFRA includes two quick-response diagnostic tools to help identify countries at risk (by assessing issues of fiscal space, infrastructure gap and institutional absorptive capacity) and sectors at risk (by assessing issues that could affect projects under implementation). The Infrastructure Diagnostics will enhance the quality of infrastructure data, analyses, and policies and greatly facilitate the identification of investment decisions by client countries and participants to the INFRA Platform. The diagnostic will be instrumental to identify and assess the priority and readiness of projects that have merits for further preparatory work. The results of the diagnostics will be made available to all INFRA partners and will also facilitate coordination of the investment decisions, including for co- and parallel financing processing and decisions.

(ii) **The preparation of priority projects.** This comprises project preparation activities, including economic, technical, social, environmental, institutional, and financial aspects.

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1 INFRA aims to provide the foundation for rapid recovery and job creation and to promote long term growth by: stabilizing existing infrastructure assets; helping to ensure delivery of projects that remain government priority; supporting Public Private Partnerships (PPPs) in infrastructure; and assisting new infrastructure project development and implementation. The IFC has established the **Infrastructure Crisis Facility** to bridge the financing gap for viable, privately-funded or public private partnership in infrastructure projects in emerging markets facing financial distress due to the crisis.
to develop a solid pipeline of bankable projects which could result in rapid financing and provide for the scale-up of project components.

**Funding level and schedule:** US$ 300 million (Tentative allocation per year: FY 10 – US$ 75 million, FY 11 – US$ 105 million, and FY 12 – US$ 120 million.)

**Duration:** The Trust Fund will be in operation for an initial period of three years, which is also the anticipated duration of the INFRA Platform. An independent assessment will be carried out at the end of the second year to assess if the impact from the crisis remains significant and hence there is a need for an extension of the TF.

**General principles:**

1. Funds will be used on a demand responsive basis giving priority to low income countries and “green” infrastructure, with consideration for an equitable distribution of resources among regions, countries and infrastructure sectors. A preliminary regional allocation may be used to jump start the use of the funds. Donors will be consulted on the overall allocation criteria and on exceptional basis if there would be a need to reallocate resources among regions. After having satisfied some entry criteria, Donors may be allowed to target funds to sub regions. Allocation criteria will be agreed among Donors.

2. To be eligible for financing under the trust funds, proposals will be subject to review to ensure quality at entry.

**Selection criteria and Access to the funds:**

Infrastructure Diagnostics, Due Diligence and INFRA Monitoring

1. For infrastructure diagnostics, countries have the primary responsibility for initiating Infrastructure Diagnostics but IFIs that are INFRA partners will also be allowed to initiate requests. To allow flexibility and rapid preparation of diagnostics, no fixed amount is allocated to carry out the diagnostic exercise. Depending on the size of the country, whether the diagnostic is undertaken for specific sectors or are broad based, their cost is expected to range between $150,000 and $1 million. The cost of undertaking the diagnostics should be shared among IFIs to the extent possible, by pooling together human and financial resources, and supported by resources from the country, including in kind, to increase ownership. It is expected that most diagnostics will be carried out in the initial year(s) and are to diminish as the crisis eases.

2. Funds will also be available for due diligence to ensure compliance of preparation activities carried out by recipients or IFIs as described below with Bank requirements.

3. Funds will also be available for monitoring INFRA platform activities.

Preparation of Investment preparation

1. The preparation of investment projects to be financed through this TF will primarily be identified through the diagnostic exercises. However, IFIs and donors may also trigger the request to use project preparation funds for projects endorsed by client governments. The preparation of priority projects can also be financed by this TF if such projects were already identified in CAS (or similar documents of other Donors), PRSPs, jointly agreed regional programs, and country’s infrastructure investment plans, but are at risk of being dropped or downsized because of the crisis, and when they can create a substantial number of jobs, preserve O&M expenditures, and
promote green investments. Projects not identified though the diagnostics should satisfy rigorous criteria similar to those addressed in the INFRA Diagnostic Tools.

2. Investment projects prepared through this TF instrument will allow the development of a solid pipeline of bankable projects and should result in rapid financing. It is expected that a good share of these project preparation funds will be used to increase the size of projects already in the pipeline, appraise additional components or rapidly complete the feasibility of projects. Projects where due diligence processes are ongoing or completed will be given priority in order assess the readiness to move into the procurement and investment phase, and to accelerate disbursement of investments. Depending on the use of the funds, it is estimated that the size of the TF request will range between $300,000 and $3 million. Preference will be given to the preparation of projects that have the likelihood of being supported by one or more of the INFRA Platform partners, with or without WBG participation.

**Governance system:** Donors who contribute a threshold amount (to be determined) will approve a strategic policy framework that will guide fund operations. Day to day operations could be entrusted to an in-house Secretariat, which may also comprise staff from other IFIs. The governance of the fund remains to be discussed and agreed upon with participating IFIs and donors, but the guiding principle in designing the governance will be to maintain efficient and rapid decision making in the approval of the use of the funds, once strategic directions have been provided by participating Donors. Consideration will be given to using existing Trust Fund programs and secretariats to ensure the rapid deployment of funds and reduce the replication of governance structures.

**Trust Fund Structure:** It is envisioned that for rapid start up, the trust fund will be structured initially with two subaccounts: 1) for diagnostics, due diligence and INFRA monitoring and project preparation, where World Bank procedures must be followed; and 2) exclusively for project preparation, for use by MDBs that participate in the INFRA Platform. For the trust fund, the World Bank will serve as the trustee/financial intermediary. However, fiduciary responsibility in the use of the funds would be guaranteed by the respective MDB utilizing the funds. All projects will be subject to typical due diligence, quality control and fiduciary responsibilities.

**Reporting system:** A results based management system will be in place to generate periodic updates that will be made available to donors. Information will be available to all members of the INFRA partners on the utilization of the funds, progress, early results where practicable, and early outcomes. An annual report will also be prepared and distributed to all members of the INFRA Platform. Among the reports that may be available for viewing by the client governments, donors and other IFIs may include:

i) Number, location, and results of the diagnostics exercises,

ii) Projects for which preparatory work is being carried out under the INFRA TF, broken down by region, countries, sectors, value, with brief descriptions of proposed outcomes and early results where available,

iii) Information on parallel financing generated by projects prepared under the INFRA TF, by institution, value, regional breakdown, by country,

iv) Information on outcome of the INFRA (with a particular emphasis on monitoring job creations and tracking of green investments) using generally accepted indicators.