

Infrastructure Recovery and Assets (INFRA) Platform

- A WBG response to support infrastructure during the crisis

At their meeting on November 15, 2008, G-20 leaders urged the international community and especially multilateral organizations to ensure that the *crisis does not compromise growth and poverty reduction efforts in low-income countries*¹. The G20 declaration also encouraged International Financial Institutions *to review and adapt their instruments to meet their members' needs and demands, in response to the financial crisis*.

While the crisis is having a deep impact in developed countries, it is now global and it is crucial the poorest countries and the most vulnerable people worldwide are not forgotten. The World Bank Group has asked that wealthier countries set aside a small fraction (0.7%) of their stimulus packages to support developing countries deal with the crisis. Such 'vulnerability fund' could be used to finance programs managed by multilateral development banks, the UN system, NGOs and the World Bank Group². The WBG has established a Vulnerability Framework and is developing a series of new instruments, funds, and initiatives. Such Framework relies on three pillars: safety nets to the poorest and most vulnerable, support to infrastructure, and financing of the private sector, SMEs and trade³.

This document describes one of the components of the Vulnerability Framework: the **Infrastructure Recovery and Assets (INFRA) Platform**. INFRA aims to support adequate infrastructure provision in IDA and IBRD countries during and after the crisis. The actions described below encompass the recent initiative by the IFC's Infrastructure Crisis Facility⁴, which has already been presented and is not further described in this document. As energy and energy access are important aspects of infrastructure development, the INFRA Platform also includes the **Energy for the Poor Initiative (EFPI)** which has been launched in June 2008 to expand energy access to the poor and help them reduce their vulnerability to volatile energy prices. Many Donors and IFIs are also adapting or reinforcing their existing instruments to support developing countries' efforts in infrastructure. INFRA provides suggestions for a coordinated Donor response to the crisis in the areas of infrastructure and options for various modalities of donor participation and financing to such activities.

The Crisis and Infrastructure

The global financial and economic crisis is expected to severely impact infrastructure services in developing countries, as governments are faced by shrinking resources and private financing flows are declining. More than three quarters of infrastructure spending in developing countries (90% in many IDA countries) is currently financed by the public sector. Experience from previous crises has shown that infrastructure investments often bear the brunt of shrinking public expenditure at the national and sub-national levels. Private investment also declines dramatically during crises, and cannot meet the financing gap of the public sector's much larger portion of infrastructure financing. Reduced funding for infrastructure, while expedient in the short run, can be particularly detrimental in the longer term as infrastructure services are key drivers of sustained economic growth and poverty alleviation. The "Lost Decade" of development after the East Asian crisis showed how countries can suffer both from a decline

¹ Under Working Group 4 a specific call is also made to support emerging and developing countries to obtain sufficient funds to support infrastructure investments.

² Support to the Vulnerability Fund and its concept has recently been expressed by the Heads of the Multilateral Banks during their meeting on February in Tunis.

³ The chart at the end of the paper describes the components under the proposed Vulnerability Framework.

⁴ IF launched the Infrastructure Crisis Facility last December to help ensure that viable, privately-funded infrastructure projects in emerging markets have access to the funding during the financial crisis.

in infrastructure assets and services, particularly to the poor, and from a weaker foundation for sustainable growth.

The catalytic role of infrastructure in poverty reduction has been recognized in the Millennium Development Goals (MDGs), which single out access to water supply and sanitation service targets to be achieved by 2015⁵. The financial crisis may also result in countries compromising on their environmental and climate oriented commitments due to the need to reallocate budget resources to more short-term actions.

Responding to the Crisis

With fewer funds at their disposal, Governments face a twofold challenge in the infrastructure sector: (i) how to ensure its population, and especially the vulnerable groups, continue to have access to critical basic services; and (ii) how to continue financing infrastructure investments. Counter-cyclical public spending in infrastructure is an effective tool to provide the foundation for rapid recovery and job creation and to develop a robust economic platform for long term growth. Several governments are hence planning to stimulate the economy through infrastructure investments.

The objectives of the proposed INFRA Platform are to: (a) assist partner country governments respond to the negative effects of the global crisis on their infrastructure services and investment programs; (b) provide them with customized policy options to minimize the impact of the crisis, while limiting market distortions; and (c) provide technical and financial support for continued private sector activity and for public investment projects in infrastructure.

Such INFRA objectives should be achieved by:

- **Stabilizing existing infrastructure assets** by providing funding to those infrastructure projects which are facing temporary liquidity problems; ensuring continued preparation of investment projects with updated project designs; restructuring ongoing projects to ensure sufficient counterpart funding; supporting government efforts to cover the costs of maintenance and protect countries' existing infrastructure assets; providing safety nets to protect the poor's continued access to services; and advising governments and utilities to efficiently manage currency, interest rate, and commodity risks;
- **Ensuring delivery of projects that remain government priority** by providing additional financing for infrastructure investments, sub national lending and technical assistance; and advancing the low carbon agenda through climate finance instruments. Essential infrastructure spending that should be protected against revenue shortfalls will be identified and capacity for improved budget management will be provided given its increased importance in a more constrained fiscal environment;
- **Supporting Public Private Partnerships (PPPs) in infrastructure** by bridging the current gap of government commitment to private or PPP infrastructure projects in emerging markets. This will help stabilize viable infrastructure projects with private participation which are facing temporary liquidity problems in light of changed market realities and enable the continuation of some new private project development.; and
- **Supporting new infrastructure project development and implementation** by providing financing and advice to those governments that intend to launch growth and job enhancing

⁵ Although not explicitly stated as goals, access to other infrastructure services such as electricity, transport, and telecommunications is indispensable for achieving the health, education, gender, and income poverty goals spelled out in the Millennium Declaration of the UN General Assembly.

infrastructure programs and projects and by supporting investment planning and management by creditworthy sub-sovereign municipalities and utilities⁶.

The Proposed Infrastructure Framework for Recovery and Assets (INFRA) Platform

The INFRA Platform will be implemented through the following components:

- **Increased diagnostic and advisory support.** A rapid **diagnostic tool** will be developed to identify those countries where infrastructure financing is most at risk and those projects most appropriate for INFRA support. The diagnostic will provide a detailed assessment of infrastructure spending and a methodology for the preliminary assessment of the impact of the crisis. To facilitate coordination, the country assessments prepared by WBG staff will be made available not only to the government but also to the INFRA donors. In depth diagnostic will be important to ensure that priority financing focus on growth-enhancing investment, take into account sustainability criteria, and prevent the financing of low-productivity and low-quality projects. It will help inform, shape, and coordinate donors' support to eligible countries, and could promote rapid decision-making by other partners. In addition to the diagnostic, technical assistance to governments that intend to develop fiscal stimulus packages, or that are seeking ways to maintain and accelerate their infrastructure priority and investments, will be provided. Best practice guidelines and guidelines on Dos and Don'ts on infrastructure for government in crisis will also be prepared and disseminated.
- **Scaled up financing through parallel financing initiative** from donors to ensure complementarities of means and responses for countries and projects impacted by the crisis. The development partners should agree on a framework of actions to ensure adequate collaboration and complementarities. Financial resources channeled through the INFRA Platform could be used to respond to country demands for additional financing by leveraging donor financing. The preferred method of cooperation will be parallel financing to ensure a speedy response and multi-donor instruments for investment financing to allow financing gaps to be bridged by different donors more easily. The World Bank Group is also considering ways to support existing infrastructure programs and facilities managed by other Donors.
- **Targeted financing.** Priority projects identified through the diagnostic assessment may require concessional financing in certain countries or under specific circumstances. A specific window could be established to provide incremental financing for project preparation, for existing projects and programs and for countries planning to implement fiscal stimulus packages with infrastructure investments. Additionally, a concessional window could be established for countries under financial stress and include temporary subsidies to infrastructure services provision to ensure continued access for the most vulnerable groups and to finance technical assistance and capacity building. For example, after identification of the priority project, through the diagnostic tool, the concessional facility could provide funds to projects that provide access to basic services, ensure sustainability by funding O&M costs which could not be otherwise recovered because of the crisis, and to avoid asset deterioration. In the case of IDA countries, if substantial additional financing can be secured, grant funds could be used for blending and to reduce borrowing costs. The initial focus of any concessional window will be on funding project preparation. All IFIs participating in INFRA will have access to this concessional window, provided their project and programs are included in the INFRA Platform. Ways will be developed to ensure that there is consistency between the fiduciary responsibilities of each of the participating Donors and IFIs to the INFRA Platform.

⁶ The Bank will also provide continued support to governments on planning and implementing infrastructure projects as major component of public spending through Public Expenditure Reviews (PERs) and Medium Term Expenditure Frameworks (MTEFs).

- **The Energy for the Poor Initiative.** This initiative aims to maintain focus on expanding energy access, help the poor adjust to energy shocks, and reduce their vulnerability to volatile energy prices. In the short term, the initiative will be implemented through grant financing for project preparation and investments, and in the medium term, it will promote co- and parallel financing with several donors of projects that are already in the WBG and donors' pipeline in the areas of energy access, energy diversification and energy efficiency⁷.
- **Acceleration of the Clean Technology Agenda.** INFRA will support Governments who want to use infrastructure investments to advance the “green agenda” by leveraging financing for the pipeline of investments from new facilities, such as the Carbon Partnership Facility, Clean Technology Fund, green bonds and by leveraging similar programs managed by other Donors.
- **Monitoring and Coordination.** The development of a common tracking system will be created to report on projects, reduce overlaps, and ensure that synergies among Donors are further exploited.

Existing Initiatives and the Donors' Response

Many Donors have in recent years and in the months preceding the crisis, increased their financing of infrastructure and created new facilities with the scope to facilitate synergies, coordination, and leverage funding, often by a combination of private sector, grants, and concessional financing. For example, the EU-Africa Infrastructure Trust Fund or the Infrastructure Project facility in the Western Balkans. Donors could decide to reinforce financing of some of these facilities to provide additional infrastructure financing or they could expand the range of other instruments available to the beneficiary countries. In those cases where the World Bank or other Donors are not part of these already established facilities, ways to increase coordination and synergies to ensure the efficient delivery of funding and the acceleration of the crisis infrastructure agenda could also be explored.

The World Bank Group intends to make funds available to support the launch of the INFRA initiative, including by leveraging existing World Bank-administered projects. INFRA is already being used within the WBG to ensure that infrastructure lending is not reduced, as experienced in previous crises, and to substantially increase infrastructure lending.

Modalities for operationalisation and implementation of INFRA⁸

INFRA does not intend to create new process or structures but, in line with the spirit of the Paris Declaration and the Accra Agenda for Action, it plans to leverage the existing work of Donors more effectively and to further develop the instrument of parallel and co-financing. The aim is to maximize the use of existing World Bank Trust Funds and the coordination with other Donor facilities to rapidly and effectively support and supplement infrastructure needs in MICs and LDCs. A light mechanism will be established to coordinate efforts, keep track of Donor financing, develop and disseminate the diagnostic products, ensure flowing of information on project pipelines and on the parallel and co-financing, and ensure synergies on the selection of priorities projects and programs.

⁷ Co-financing is also being pursued with other initiatives such as the Scaling-Up Renewable Energy Program (SREP) and the Africa Energy Access Scale up program (AFREAS), in coordination with donors.

⁸ These would be developed based on discussion with the Partners.

Next Steps

The response to the worst economic crisis must be global, coordinated, flexible, and fast. Policy challenges need to be addressed at the country level, but it is more critical than ever for the international community to act in a coordinated way. Donor government and institutions, and among them the WBG, must be ready to respond quickly and effectively to these demands. It is crucial to ensure that infrastructure remains at the core of the development agenda and to increase credit availability for infrastructure in developing countries.

The INFRA Platform aims to facilitate timely, transparent, and concerted actions to support infrastructure and to encourage increased collaboration among multilateral and bilateral development organizations. This would increase the effectiveness of the response in the beneficiary country in terms of quality, quantity, and speed. The World Bank Group intends to continue working with other IFIs and bilateral donors to further develop such Platform. Donors and Interested IFIs are asked to:

1. Provide feedback on their interest in participating in the INFRA platform
2. Indicate their ability to support through grant funding a possible concessional window, especially for a project preparatory facility accessible to all INFRA Partners
3. Provide feedback on priority projects and programs for parallel and co-financing that will help beneficiary countries avoid or reduce the risks of an infrastructure crisis.

