

Infrastructure Action Plan

Part I : Overview

Part II : Matrix of Management Actions

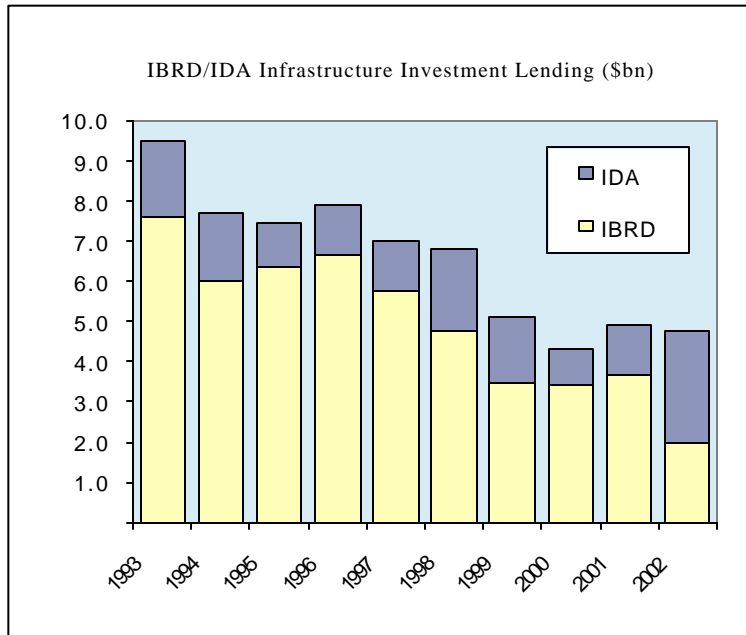
There is increased consensus on the part of clients, the Board, and Management that the Bank Group needs to increase its engagement in infrastructure in light of growing investment needs, withdrawal of private investors, and growing recognition that the MDGs can only be met in a multisectoral way. The purpose of this note is to follow-up on the Informal Board Briefing on Infrastructure of February 13, 2003, and to present a detailed action plan that outlines the key areas of management attention for the Bank Group's infrastructure business.

Informal Board Meeting, July 8, 2003

PART I : OVERVIEW

Infrastructure Business 1990-2002: Strategic Shift and Changing Environment

During the 1990s, the World Bank Group's infrastructure business shifted from focusing on "bricks & mortar" investments to a model of infrastructure service delivery. This led to a more balanced strategy of complementing investments with policy and regulatory reforms and institutional capacity building.



This shift reflected a growing consensus that the right policy environment and institutional capacity are crucial for ensuring sustainable infrastructure investments, whether they are public or private. During the same period, private sector interest in infrastructure investments in developing countries increased, leading the Bank to focus on leveraging private flows. As a result, World Bank infrastructure investment lending, especially in IBRD countries, declined by 50% between 1993 and 2002, while other Bank Group activities in infrastructure increased over the same period: infrastructure components in adjustment loans were up 104%, IFC investments rose by 88% and the number of MIGA

guarantees increased by a factor of 30, with concurrent increases in AAA work.

Despite the Bank's success in focusing on infrastructure service delivery, the decline in Bank lending cannot be attributed to a change in strategy alone. The decline was exacerbated by other internal Bank Group factors, such as a lack of clarity on the roles of the private and public sector in infrastructure service provision and under-investment in country-level infrastructure diagnostic work. High preparation costs, risk aversion among staff, corporate signals on infrastructure, and a move towards programmatic lending contributed to a reluctance to take on infrastructure projects. These and other internal and external factors have led to under-representation of infrastructure in CASs and PRSPs, and as a result, a decline of about 10% in the Bank administrative budget allocated to regional infrastructure departments over the last three years¹.

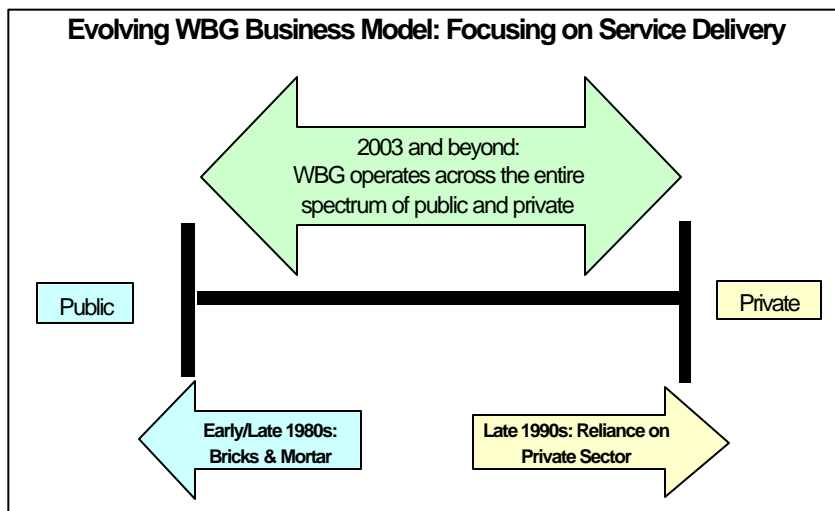
Going Forward: Scaling-Up Infrastructure Service Delivery

Going forward, in addition to addressing these internal issues, two external developments will significantly influence the Bank Group's infrastructure business. First, private investment in infrastructure in developing countries has declined from a peak of \$128 billion in 1997 to \$58 billion in 2002. Second, the need for infrastructure service provision to reduce poverty and increase economic growth has received unprecedented recognition in various contexts, such as the MDGs, NEPAD, the

¹ For full explanation of trends see the documentation for the Informal Board Meeting held on February 13th, 2003.

WSSD, and the Camdessus Panel. These initiatives have highlighted major gaps in infrastructure service provision that need to be filled.

Responding to these changes requires further evolution of the Bank Group’s infrastructure business. The overarching premise of the Bank Group’s business model will be to ensure efficient, affordable, and sustainable delivery of infrastructure services by leveraging funds from the entire spectrum of public and private sources, supported by IBRD, IDA, IFC, and MIGA products. Within that context, the Bank Group will continue its model of encouraging private sector participation as a means to increase the efficiency and performance of infrastructure service providers; financing inefficient public utilities without a clear reform agenda will remain part of the past. However, the recent decreases in private sector interest in infrastructure show that reliance on the private sector alone will not be sufficient to guarantee a scaling-up of infrastructure service provision. Therefore, in the context of providing policy advice on sector reforms, the Bank will continue to lend in some cases to well-performing public utilities, including to subsidize connections and consumer charges for the use of infrastructure services.



Additionally, although cost recovery will continue to be a goal for most projects, there will be greater flexibility in determining the period of time in which this goal must be reached. In cases where private sector participation is a key component of Bank Group activity, there will be more focus on the institutional design of the private participation in infrastructure arrangement and capacity-building, both for the private service provider and regulatory agencies. In all cases, the Bank Group will continue to emphasize the multi-sectoral contributions that infrastructure services provide, whether directly, as in the case of water, or indirectly, in the case of energy, transport, and telecommunications, to the MDGs. The Bank Group will also continue to ensure that infrastructure investments are environmentally and socially responsible and sustainable.

This evolving Bank Group business model will impact the various infrastructure sectors in different ways. For example, in light of continued private sector involvement the ICT sector, the Bank will maintain its focus on policy advice and institution building, complemented by IFC transactions and MIGA guarantees, but will also provide support where private investors do face greater obstacles, such as in post conflict situation and regional projects. In contrast, in the water and sanitation sector, where private finance has accounted for less than 10% of total investment, the Bank will need to more strongly promote sustainable public sector investment and service delivery as well as sustainable subsidies for private provision. These changes will impact different regions and client segments differently. In IDA countries, although private financing for infrastructure has been increasing, its relative share of all infrastructure financing remains low. Consequently, the Bank Group will remain an important source of financing for public sector investments. In middle-income countries, which have received private financing to a varying degree, the Bank Group’s role will focus on promoting an

optimal mix of public-private partnerships. As upper middle-income countries have received the bulk of private investment in the 1990s, the Bank Group's share of infrastructure finance is expected to remain limited despite a recent decline in private sector investment, and the Bank Group will continue to focus on leveraging private finance. Overall, in spite of the projected increased Bank Group engagement in infrastructure, there is strong recognition that the Bank Group will not be able to fill infrastructure investment gaps on its own, and that all of the Bank Group's instruments need to be used effectively to leverage total infrastructure financing from a variety of sources, e.g. Regional Development Banks, foreign commercial banks, and local capital markets, etc..

An Action Plan to Revitalize the World Bank Group Infrastructure Business

In order to meet these objectives, Management has developed an Infrastructure Action Plan to increase the Bank Group's contribution to improving infrastructure service delivery. This Action Plan is a comprehensive management tool which will guide the Bank Group's infrastructure business for the next 2-3 years. The Action Plan includes a particular emphasis on building the Bank Group's infrastructure business by investing further in the Bank Group's pipeline of loans and other financial instruments, as well as country diagnostic work. This investment is necessary due to the fact that current CASs were developed under different circumstances, when there was an expectation of higher levels of private sector involvement in infrastructure and internal questioning of the role of infrastructure in poverty reduction. The aim of the Infrastructure Action Plan is to rebalance the Bank Group's business so as to re-position infrastructure as a key contribution to achieving the MDGs. Within this context, the Infrastructure Action Plan will focus in particular on the following three key areas:

- **Respond to client country demand for infrastructure:**

In light of increased demand from client countries, the Action Plan includes a number of concrete measures designed to increase lending and AAA deliverables. In cooperation with regional infrastructure Sector Directors, the Infrastructure Vice Presidency has identified a number of country-

Investing further in Infrastructure Business Development

Under the Action Plan, additional funding would be allocated to the regional infrastructure departments for Project Concept Notes (PCNs) in FY04 which could then be used to stimulate the infrastructure pipeline for project delivery in FY05. The current plan for funding PCNs includes projects in the following countries:

- *AFR*: Ethiopia, Kenya, Madagascar, Senegal, Tanzania
- *EAP*: China, Indonesia, Laos, Vietnam
- *ECA*: Bosnia, Kazakhstan, Moldova, Turkey
- *LCR*: Argentina, Brazil, Honduras, Nicaragua,
- *MNA*: Morocco, Yemen,
- *SAR*: India, Sri Lanka

specific lending opportunities that could be developed in FY04 for Board consideration in FY05/06 (see box). In order to facilitate the development of these and other projects, sector specific guidance notes will be written to clarify the opportunities for Bank Group engagement in infrastructure with respect to the roles of the public and private sectors in the provision of infrastructure services. The contents of these notes will

be communicated to both staff and clients to increase knowledge of Bank Group options for scaling-up infrastructure service delivery. Within this context, the Bank Group will also work on improving coordination between the various MDBs in infrastructure sectors. In order to sustain the expected increase in business deliverables, the Infrastructure Network will intensify its engagement with country teams and Country Directors to increase the infrastructure presence in CASs, PRSPs, programmatic

loans, and adjustment loans. The Infrastructure Network will also use improved AAA work to highlight the contributions of infrastructure to poverty reduction and growth.

- **Rebuild knowledge base by strengthening country analytical work**

In order to improve the knowledge base that supports the Bank Group’s engagement in infrastructure sectors, the Infrastructure Network along with other Bank Group partners will make a number of additions and changes to its existing program of analytical and advisory work.

The Infrastructure Anchor has developed a standardized infrastructure assessment, the REDI, which is designed to increase infrastructure business deliverables, as well as improving the impact of our AAA/ESW work (see box). To complement this effort, the Infrastructure Anchor will set up

Recent Economic Developments in Infrastructure (REDI)

REDIs provide diagnostics of infrastructure sectors in order to identify investment opportunities and policy-based operations for a given country. The diagnostics will be standardized across countries to allow benchmarking and comparison. The REDI will be modular to allow different levels of detail and analysis. The Infrastructure Network is currently considering the following countries for additional diagnostic work: Kenya, Senegal, China, Argentina, Colombia, Armenia, Morocco, India.

and maintain a series of standardized databases on infrastructure to provide benchmarking in country analytical work. These will also help to improve results measurement and provide data for Global Monitoring efforts. To further increase the impact and use of analytical work done by the Bank Group, the Infrastructure Network will implement a program to help coordinate AAA work done by trust-funded Global Programs with regional and anchor-managed ESW, as well as capacity building programs managed by WBI. Lastly, in recognition of the multi-sectoral linkages of infrastructure with poverty reduction and growth, the infrastructure anchor and regional units will collaborate with other Networks to link infrastructure analytical work to other Bank diagnostics, such as PERs, CEMs, PAs, National Environmental Assessments, and ICAs. This will also help to reduce any potential duplication of work and strengthen the country level evidence of infrastructure contributions to growth and poverty reduction.

- **Apply new/existing WBG instruments effectively to maximize leverage**

To continue the shift towards the service delivery model as well as to maximize funding for infrastructure from all sources, the action plan pinpoints a variety of new instruments, business lines, and mechanisms to increase the use of combinations of loans, investments, and guarantees from across the World Bank Group. In recognition of the challenges that exist in the field of risk-mitigation and engagement at the sub-

Creating a New Department on Private Participation and Finance

As a complement to our work on instruments, we will establish a new cross-sectoral Department for Private Participation and Finance. The new Department will combine the current guarantees department (PFG) and the Private Participation in Infrastructure (PPI) unit, but will have an agenda that is even broader: it will be responsible for developing innovative cross-sectoral approaches to private public partnerships; advising on issues of regulation, competition and market structure; developing operational tools to support infrastructure finance (risk mitigation, local capital markets, guarantees, etc.); providing support to the regions in structuring guarantee operations; developing subsidy schemes such as Output Based Aid and mainstreaming such approaches in the regions; and developing the analytical links between infrastructure services, growth and poverty.

sovereign level, the World Bank Group is exploring new instruments to operate at the sub-sovereign level via, e.g., Guarantco and the IFC Municipal Fund, a sub-sovereign lending facility. We will also explore instruments to reduce foreign exchange risk associated with infrastructure investments such as a liquidity backstop facility or local currency guarantees. These instruments and programs, along with changes in policies and procedures to enhance the use of existing IBRD, IDA, and MIGA guarantees are being developed in response to the Camdessus Report on Financing Water Infrastructure (see box). To complement our country level work, the Bank Group will also increasingly look

Follow-up to Recommendations of the World Panel on Financing Water Infrastructure*

The World Panel on Financing Water Infrastructure focused on the twin challenges of governance and financing water and sanitation resources. The Bank Group will respond to their recommendations in four areas:

- *Governance/Sector Reform.* The Bank Group will intensify our ongoing policy dialogue with member governments while at the same time creating a better base of knowledge and analytical tools to facilitate such initiatives.
- *Risk Mitigation Instruments.* The Bank Group will review institutional policies and processes that may constrain the use of risk mitigation instruments and develop new credit enhancement and risk mitigation instruments to cover significant risks, notably policy and currency risks, including exploring development of a liquidity backstopping facility.
- *Sub-Sovereign Instruments.* The World Bank Group recently created a new Municipal Finance Group, modeled on a private equity fund, and has also been working with bilateral donors to develop a sub-sovereign partial risk facility (GuarantCo) to specifically address the constraints in financing sub-sovereign entities
- *Country Strategy and Analytical Work.* The World Bank has initiated development of detailed Water and Sanitation action plans at the country level in a number of pilot countries. This approach will feed into existing processes for the development of Poverty Reduction Strategy Papers (PRSP) and Country Assistance Strategies (CAS).

* see Bank Group Response to Camdessus Panel Report (May 22nd, 2003)

for opportunities to work on regional/multi-country projects, in light of the regional integration challenges. In addition to these new instruments, deepening our use of instruments from across the World Bank Group will be encouraged through training, joint missions, and direct incentives to staff. In order to ensure that these cross-institutional collaborations are implemented with attention to conflict of interest issues, guidelines will be clarified and training will continue to be provided to staff.

In addition to the actions in these three main areas, management will continue to address other ongoing business challenges that are very important for the Bank Group's infrastructure business, such as demonstrating and communicating the results of infrastructure interventions, addressing institutional policy constraints and simplifying bank procedures, as well as looking into the application of safeguards, and better managing Bank Group staffing and incentive issues, including the processing of high risk - high reward projects. The attached Management Matrix summarizes these areas and outlines a timeline and accountabilities for implementation. The Matrix will be the basis for managing the Bank Group's infrastructure business over the next few years, and for reporting progress and results on a regular basis.

Part II: Matrix of Management Actions

Infrastructure Action Plan - Overview

- I. **Respond to Client Country Demand for Infrastructure**
 - Offer a broad menu of options for public and private sector infrastructure provision
 - Develop new infrastructure business by investing in project pipeline
 - Better integrate infrastructure into CASs and PRSPs

- II. **Rebuild Knowledge Base by Strengthening Country Analytical Work**
 - Improve and expand regional/anchor infrastructure diagnostic work
 - Better link infrastructure diagnostic work to other Bank diagnostics
 - Increase impact of analytical work done by Global Programs
 - Develop infrastructure sector databases to improve results measurement

- III. **Apply new/existing WBG instruments effectively to maximize leverage**
 - Create new lines of business and instruments to meet emerging client demands
 - Facilitate and promote joint use of WBG instruments,
 - Increase understanding of conflict of interest issues across WBG

Infrastructure Action Plan

| | ISSUE | ACTIONS | TIMELINE | ACCNT. |
|--|--|--|-----------------|------------------|
| I. Respond to Client Country Demand for Infrastructure | ➤ Offer a broad menu of options for public and private sector infrastructure provision | ● Provide sector-specific guidance on the roles of the private and public sectors in infrastructure service provision | FY04 | SBs + GPGs |
| | | ● Improve knowledge and training/learning programs for staff on Bank Group approaches to infrastructure service provision | FY04-06 | SBs, WBI + GPGs |
| | | ● Improve communication to clients and NGOs/civil society groups on Bank Group approaches to infrastructure service provision | FY04-06 | SBs + EXT |
| | ➤ Develop new infrastructure business by investing in project pipeline | ● Make additional Bank administrative budget available for business development | FY04-06 | RVPs + SRM |
| | | ● Identify opportunities for infrastructure deliverables in addition to forecasted WPAs | FY04-06 | RVPs + SRM |
| | ➤ Better integrate infrastructure into CASs and PRSPs | ● Set up INF CAS/PRSP engagement process (driven by the regional sector departments and supported by the anchor)* | FY04-06 | SDs + GPGs |
| ● Better integrate infrastructure agenda into Bank programmatic and adjustment lending (e.g. PSALs, PRSCs, SECALs) | | FY04-06 | RVPs/SDs + OPCS | |
| ● Clarify Bank Group role on infrastructure service provision vis-à-vis MDBs and other donors to tap synergies for scaling-up infrastructure | | FY04-06 | RVPs + CDs | |
| II. Rebuild Knowledge Base by Strengthening Country Analytical Work | ➤ Improve and expand regional/anchor infrastructure diagnostic work | ● Develop a standardized (non-core) infrastructure diagnostic assessment (the Recent Economic Developments in Infrastructure, “REDI”) and invest in 20 assessments over 2 years* | FY04-05 | INF, VP + SDs |
| | | ● Explore options for reducing “crowding out” of sector ESW by core diagnostics, especially in small countries | FY04-06 | OPCS + RVPs |
| | | ● Develop mechanisms (e.g. guidelines, training, etc.) for improving the quality and impact of infrastructure ESW/AAA | FY04-06 | SDs, OPCS + WBI |
| | | ● Conduct diagnostic work at sub-sovereign level through urban poverty diagnostics | FY04-06 | TUD + Urban SB |
| | ➤ Better link infrastructure diagnostic work to (other) Bank diagnostics | ● Improve treatment of infrastructure issues (e.g. infrastructure-growth-poverty linkages, financing needs, fiscal impact, efficiency measures) in [core] Bank diagnostics | FY04-06 | SDs, PREM, + DEC |
| ● Improve link between infrastructure issues and ICAs / Doing Business Report | | FY04-06 | INF VP | |

* Addresses Camdessus Panel concerns

Infrastructure Action Plan (ctd)

| | ISSUE | ACTIONS | TIMELINE | ACCNT. |
|---|--|---|-------------------------------------|---|
| II. (ctd) | ➤ Increase impact of analytical work done by Global Programs | <ul style="list-style-type: none"> Explore options for improved alignment between global program diagnostic work and country programs | FY04 | INF VP, GP Mgrs + FRM |
| | ➤ Develop infrastructure sector databases to underpin Bank analytical work | <ul style="list-style-type: none"> Develop a core set of indicators for each sector and maintain up-to-date sector databases Develop and improve capacity in client countries to generate data and information Use databases to provide benchmarking for country-level analytical work/projects as well as Global Monitoring efforts | FY04 - 06 FY04 - 06 FY04 - 06 | SBs + Inf. VP DECRG + CDs SDs |
| | ➤ Create new lines of business and instruments to meet client demand | <ul style="list-style-type: none"> Establish new cross-sectoral Private Participation and Finance Department (in the INF Anchor) which combines the PGF and PPI groups Investigate options for providing financing to sub-national entities* (e.g. Garantco and IFC municipal fund), and explore local financing mechanisms Expand use of risk mitigation instruments covering regulatory failure and mitigating foreign exchange exposure, e.g. liquidity backstopping facility* Develop regional infrastructure projects, and investigate solutions to incentive, budgetary impediments to multi-country work | FY04 FY04 FY04 FY04-06 | INF VP IFC Inf. + TUD PFG SDs + LEG + Anchor |
| III. Apply New / Existing WBG Instruments Effectively To Maximize Leverage | ➤ Facilitate and promote joint use of WBG instruments | <ul style="list-style-type: none"> Use targeted public/IDA subsidies to increase viability of private projects* Encourage joint IFC/MIGA/Bank missions for certain sectors/countries and invest in staff exchanges and secondments within WBG Train Bank staff on IFC/MIGA instruments and vice-versa | FY04-06 FY04-06 FY04 | WB Inf + IFC Inf + MIGA Inf + WBI + HRSVP + PFG |
| | ➤ Increase understanding of conflict of interest issues across WBG | <ul style="list-style-type: none"> Continue to provide training and improved guidance for conflict of interest management | FY04-06 | COI Office |
| | ➤ Enhance WBG capacity-building programs | <ul style="list-style-type: none"> Invest in and mainstream innovative existing and new capacity-building programs | FY04-FY06 | SDs + WBI |
| | | | | |

* Addresses Camdessus Panel concerns

| ONGOING BANK GROUP BUSINESS CHALLENGES | | | | |
|--|--|--|-------------------------------|---|
| | ISSUE | ACTIONS | TIMELINE | PARTNERS |
| V. Demonstrate and Communicate Impact of Infrastructure | ➤ Develop framework for understanding the benefits of investing in infrastructure and improve results management framework | <ul style="list-style-type: none"> ● Improve results measurement of infrastructure contributions to development outcomes at the project level ● Use infrastructure database for results management at sector/country level ● Expand research by and resources spent in DEC on infrastructure ● Implement infrastructure communication plan to better reach external and internal audiences | FY04-06 FY04-06 FY04-06 | SDs SDs + CDs DEC EXT + INF VP |
| | ➤ Continue communications agenda on development impact of infrastructure | | | |
| VI. Address Institutional Policy Constraints | ➤ Facilitate the delivery of more just-in-time investment lending | <ul style="list-style-type: none"> ● Implement process simplification agenda (e.g. policies and processes, resources and incentives, documentation, fiduciary requirements) | FY04 | OPCS |
| | ➤ Remove policy constraints to increased use of guarantees as a way to engage private sector | <ul style="list-style-type: none"> ● Allow for greater guarantee exposure in IBRD countries; explore options for IDA* ● Find a solution for providing guarantees to blend countries where IBRD exposure cannot be increased* | FY04 FY04 | FINCR + FRM FINCR |
| | ➤ Clarify applicability of safeguards | <ul style="list-style-type: none"> ● Standardize interpretation of safeguards across regions and instruments | FY04 | LEG + OPCS + ESSD |
| | | <ul style="list-style-type: none"> ● Clarify interpretation of safeguards in network industries | FY04 | LEG + OPCS + ESSD |
| VII. Manage Bank Group Staffing And Incentive Issues | ➤ Continue to implement strategic staffing plans | <ul style="list-style-type: none"> ● Manage strategic staffing plans aggressively (e.g. batch recruitment, staff rotations, and skills development, staff exits, role of sector boards) | FY04-06 | SBs + SDs + RDs |
| | ➤ Develop incentives for staff to take on risky projects | <ul style="list-style-type: none"> ● Recognize and prepare high-risk/high-reward projects as a special class of operations - "Corporate Projects" | FY04-06 | SFRM |

* Addresses Camdessus Panel concerns