

World Bank Group Investment in Infrastructure Review and Prospects

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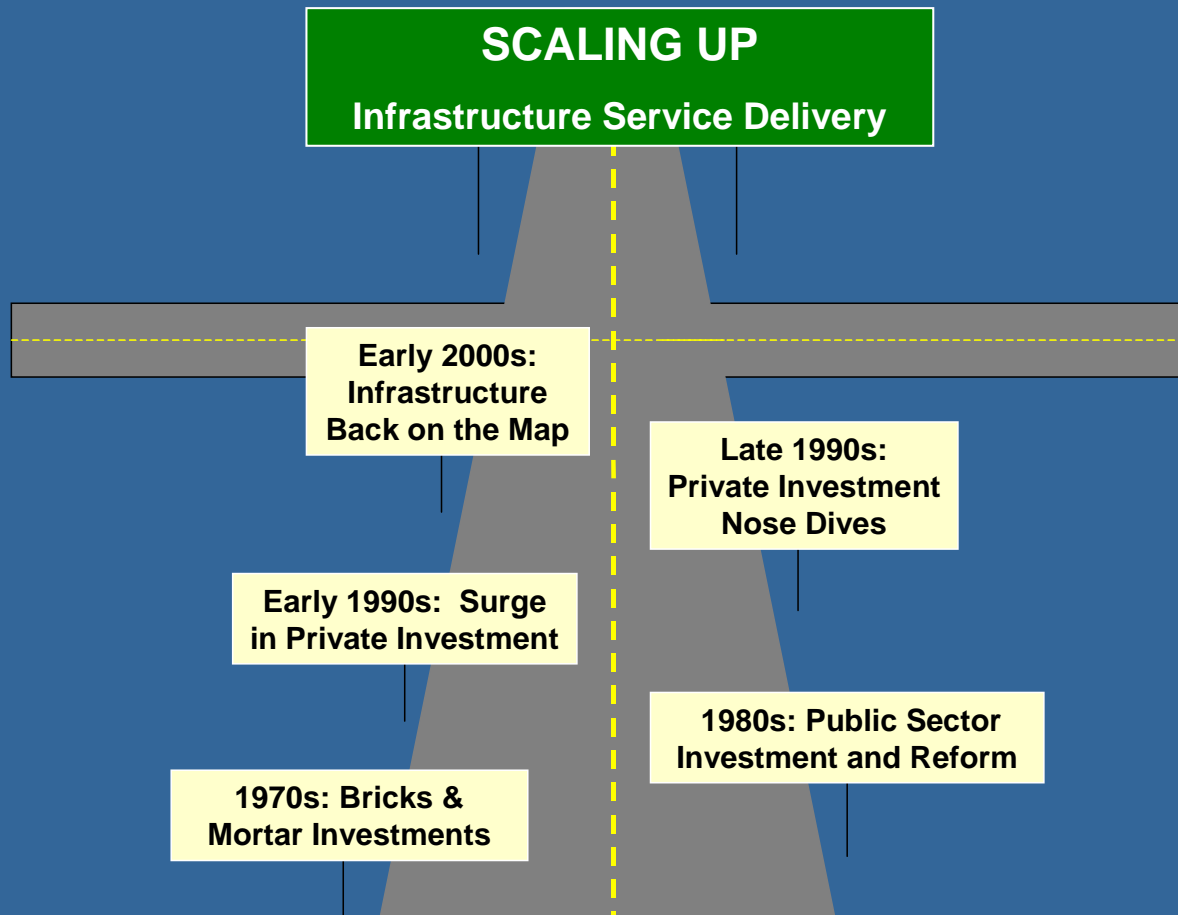
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The World Bank Group (Five Institutions)

<http://worldbank.org>

- IBRD. 1945; \$394b; \$11b in '04 (87 op. 33 cntry)
- IDA. 1960; \$151b; \$9b in '04 (158 op. 62 cntry)
- IFC. 1956; \$23.5b; \$4.8b in '04 (217 op. 65 cntry)
- MIGA. 1988; guarantee \$13.5b; \$1.1b in '04
- ICSID. 1966; arbitration/conciliation in disputes
- Total of about\$569b since inception; \$25b in '04

Infrastructure focus since the 1970s



Unmet Infrastructure Needs are Large and Growing

Access & Quality Challenges

➤ Infrastructure access needs:

- 1.2 billion people lack access to clean water
- 2 billion are without adequate sanitation
- 2-3 billion are without to modern energy
- 1 billion lack access to an all-season road
- 4 billion have no phone access

➤ Low infrastructure/service quality:

- UFW 40-70% range vs. 10-20% in DCs
- Informal water at >20 X cost piped water
- Paraffin energy at 10 X electricity cost

Financing Needs

Total annual financing needs for all developing countries:

~ 7% of developing country GDP
~\$550-\$600 billion

Total Financing Needs & Gaps, 2000-10:

Country Income Category	Expenditure Needs* (% of GDP)	Total Fin. Gaps* (% of GDP)
LDC Average	6.5-7.7%	3.1-4.3%
Lower-income	7.5-9.0%	3.5-5.0%
Middle-Income	5.7-7.0%	2.9-4.3%

* Includes investment and O&M expendit (each about 50% of total)

Infrastructure Impacts on the MDGs, Poverty, and Growth

Growth

➤ High Economic Rates of Return (ERR)

- ERR for World Bank infrastructure projects have averaged above 20% since the 1960s

➤ Infrastructure critical to growth

- e.g. lack of infrastructure investment in the 1990s in Latin America reduced long-term growth by 1-3%
- e.g. if Africa had enjoyed infrastructure growth rates comparable to those in East Asia in the 1980s to 1990s, its annual growth rate would have been about 1.3 % higher

Poverty & MDGs

➤ Infrastructure provides key basic services

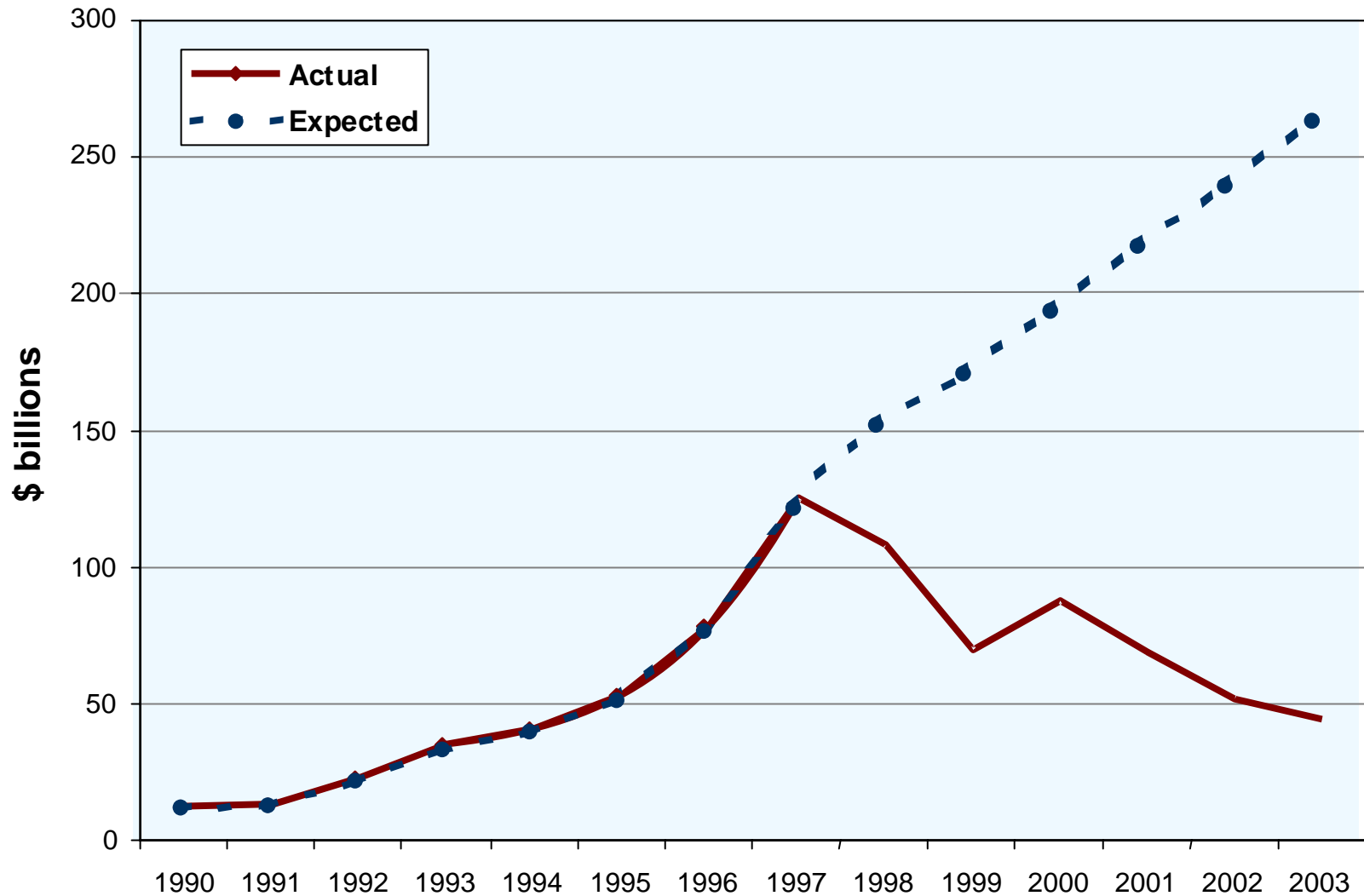
- e.g. safe drinking water, basic sanitation, and housing and shelter

➤ Infrastructure supports the delivery of other MDGS.

- e.g. the construction of rural roads in the Philippines increased school enrollment in the community by 10% and decreased the dropout rate by 55%.
- e.g. in Bangladesh, the provision of water and sanitation facilities in schools increased girls' attendance by 15%.
- e.g. access to energy sources cleaner than traditional, biomass and other fuels, helps reduce the incidence of respiratory illness

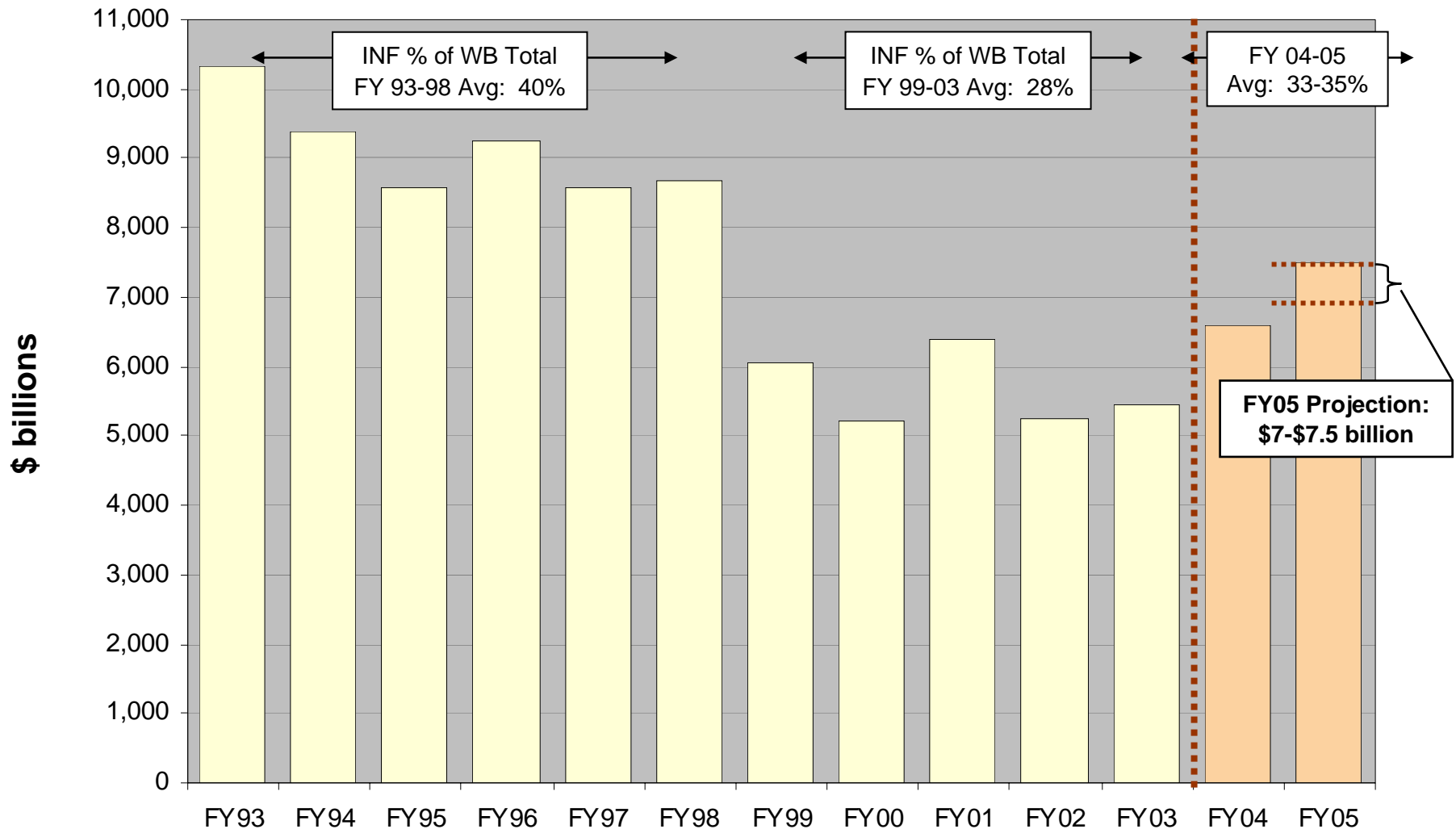
Private Participation: Expectations vs. Reality

Infrastructure Projects with Private Sector Commitments, 1990-2003



World Bank Infrastructure Declined Until FY02

World Bank Infrastructure Lending*, FY93-FY05

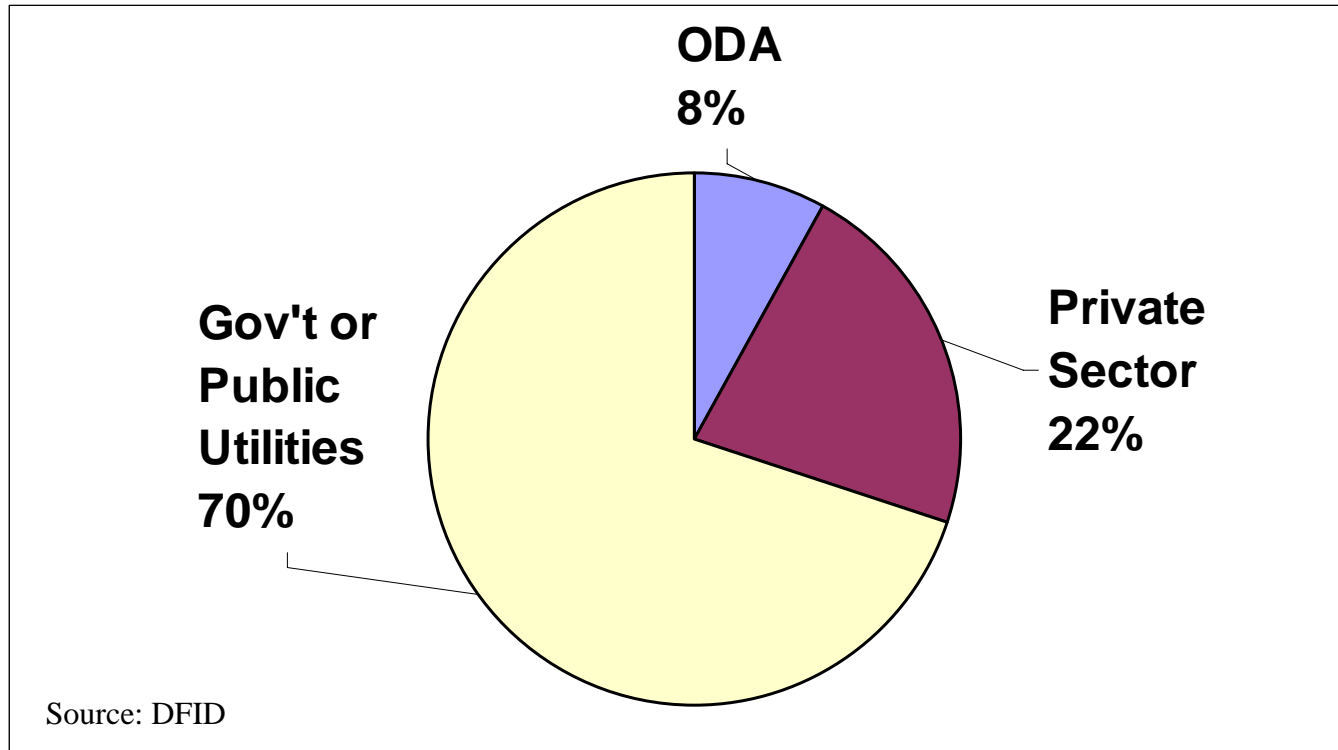


* Includes adjustment and investment lending

World Bank Group Response: “New Business Model”

- **Maximizing leverage of *all* financing sources is key**
 - **Individual transactions will be either:**
 - purely private or purely public, or
 - public / private partnerships
 - need to refocus debate of public vs. private to efficiency, equity, transparency, etc.
 - **Structuring of transaction depending on risk and return profile of projects, sectors, and countries (socio-cultural/political factors also important)**
 - e. g telecoms more private vs. water more public
 - e.g. low-income countries more public or public/private partnerships
 - **Recognizing many projects in some communities/sectors are not immediately commercially viable, justifying the need for (timebound targeted subsidies)**
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- **Overall—World Bank will have a more flexible, balanced, and pragmatic position on the question of public vs. private financing and operation**
 - **Sending a clear message on this new approach is vital for improvement**

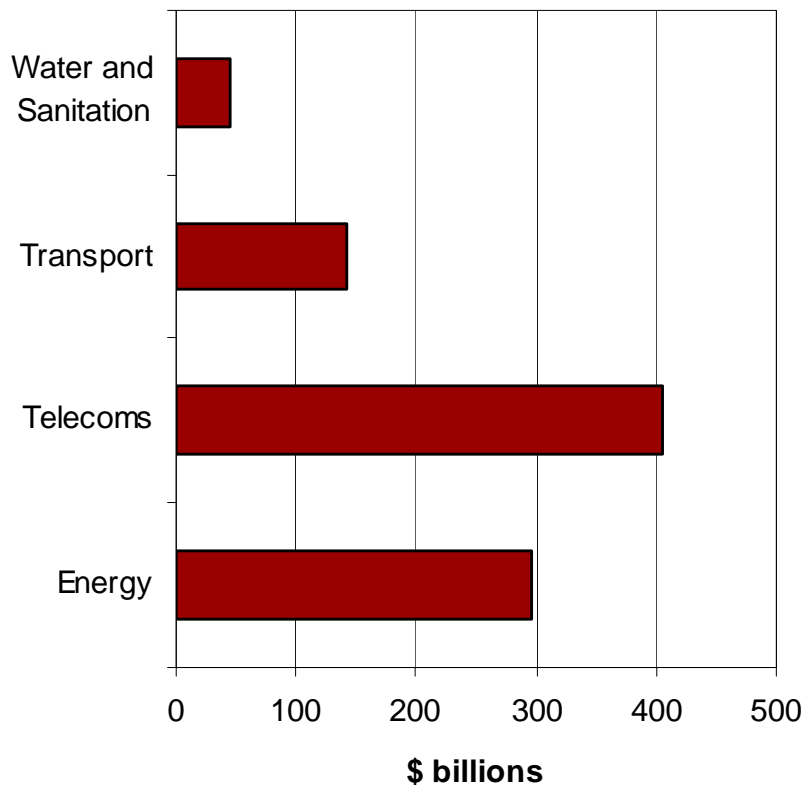
Leveraging Multiple Sources of Financing is Key



Infrastructure Projects with Private Participation: By Sector and Region

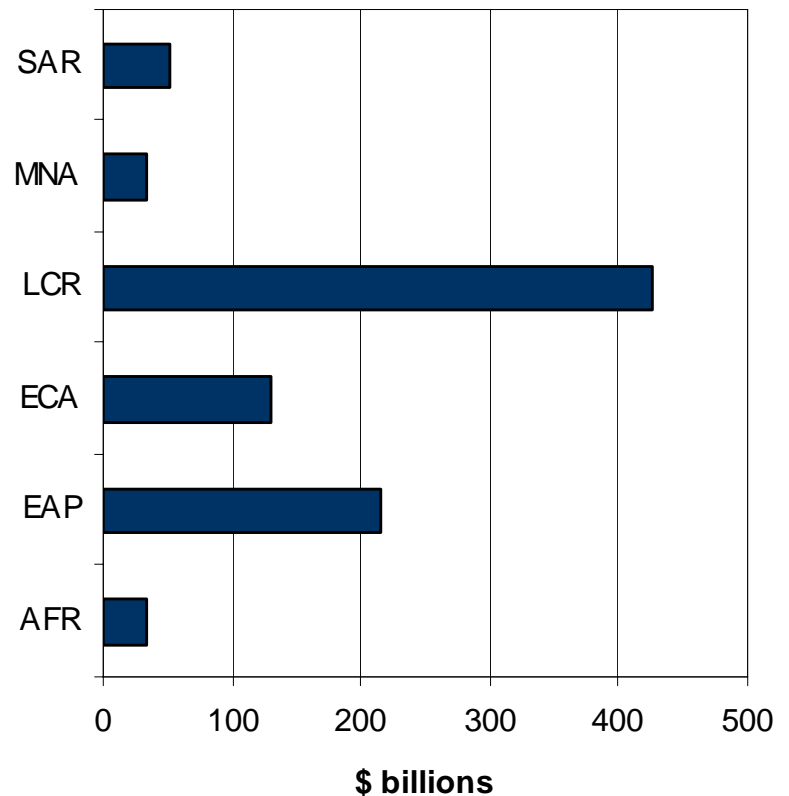
By Sector

Investment in Infrastructure Projects with
Private Participation, 1990-2003



By Region

Investment in Infrastructure Projects with
Private Participation, 1990-2003



The Infrastructure Action Plan (IAP)

Launched in July 2003, the Infrastructure Action Plan aims to:

1. Respond to client demand for greater WBG support for infrastructure
2. Improve infrastructure analytical work and measurement
3. Expand WBG approaches and instruments

Highlights of Progress Made:

- Provided strong signals that infrastructure is central to development
- Increased infrastructure lending by \$1.1 billion in FY04 to \$6.5 billion
- Expanded country analytical work and collaborated on regional infrastructure studies
- Developed a strong pipeline of regional/ multi-country projects
- Strengthened risk mitigation opportunities by increasing CAS envelope for IBRD and IDA guarantees
- Began new approaches to sub-sovereign engagement

Thoughts on Business Challenges Ahead: I

Issue/Challenge	Work Underway
Increasing access to private financing	<ul style="list-style-type: none">• New risk mitigation applications for privatization and local currency financing being considered
Increasing “true” World Bank Group collaboration	<ul style="list-style-type: none">• Building on emerging WBG collaboration: joint IDA-IFC projects in AFR and ECA, etc.• PEDF. FIAS.
Improving instruments for engagement at sub-sovereign levels	<ul style="list-style-type: none">• A Facility to enable infrastructure lending to sub-sovereign entities without government guarantees• Capacity building for sub-national public entities for accessing private finance markets
Addressing the trade-offs between safeguards and infrastructure projects	<ul style="list-style-type: none">• Bank work on country safeguards• Re-engagement with hydro projects (especially in conjunction with the renewables agenda)• Engaging the development policy community on the trade-offs

Thoughts on Business Challenges Ahead: II

Issue/Challenge	Work Underway
Addressing fiscal space challenges	<ul style="list-style-type: none">• IMF/World Bank country pilots to examine options for addressing fiscal constraints to greater public infrastructure investments• Forging alliances across sectors
Investing in analytical work and results measurement	<ul style="list-style-type: none">• Expanding country-level, regional and global infrastructure analytical work• Investing in indicators and benchmarking data• Improving planning capacity for infrastructure investments by clients (PRSPs, Finance Ministries, etc.)• Improving programming capacity for infrastructure investments within the WBG (CASs, etc.)
Enhancing service delivery to the poor	<ul style="list-style-type: none">• Better targeting subsidies to provide access to poor consumers• Mainstreaming OBA approaches (standardizing procedures and increasing eligibility and sectors)