

Infrastructure Recovery and Assets (INFRA) Platform - A Response to Support Infrastructure during the Crisis

The current global economic crisis is severely hitting developing countries. Growth prospects for emerging and developing countries have been revised downward by a magnitude similar to that for advanced economies. The low-income countries (LICs), initially shielded from the direct impact of the sudden stop in private capital flows, are now being affected as the effects of the crisis have spread through other channels, at a time when many LICs are still coping with the impact of the earlier food crisis. The impact could set back the global fight against poverty, and jeopardize the progress made towards achievement of the MDGs. Recent World Bank analysis suggests that the crisis will result in 53 million more people living in extreme poverty (below \$1.25 a day) in 2009, or 65 million more if the \$2 a day measure is used; 200,000-400,000 more infants will die every year and many poor children will lose the opportunity to attend school.

There is a clear need for counter-cyclical spending in developing countries. Crisis support is not only about protecting poor and vulnerable families and long-term development goals. It is also a critical part of the overall global response agenda - developing countries need assistance to raise global aggregate demand, maximize the impact of the global stimulus, safeguard future growth and limit the potential for civil unrest. The World Bank Group's operational crisis response initiatives focus on three thematic areas: protect the most vulnerable against the fallout of the crisis; **maintain long-term infrastructure investment programs**; and sustain the potential for private sector-led economic growth and employment creation, particularly through SMEs and microfinance. The thematic areas are being addressed through three operational platforms – the Vulnerability Financing Facility (VFF), the Infrastructure Recovery and Assets platform (INFRA), and the IFC-led private sector platform, respectively. This approach draws on lessons learned in dealing with past crises. The three priority themes are inter-related and span the core development mandate of the WBG. They complement an over-arching focus on macroeconomic stability at the core of the crisis response.

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 are fully in line with the recent initiative by the IFC through its **Infrastructure Crisis Facility** which have been described in other documents¹. 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. A specific **Africa INFRA Program** is also being developed to finance a package of high priority, high return infrastructure investments. 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 of 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. For example, growth projections for Africa were recently halved, as Africa recent economic achievements are severely threatened by the crisis. It is essential that infrastructure investments be protected as high growth rates came in Africa also from progress in infrastructure and infrastructure sector policies. Improvements in

¹ IFC 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.

ICT infrastructure for example were a strong contributor to the region's improved growth performance over the period 1990 to 2005, and responsible for adding almost one percentage point to per capita growth rates.

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 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 2015². The 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, but not many have the means to do so in the poorest countries.

The objectives of the proposed **three-year 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;

² 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.

- **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 infrastructure programs and projects and by supporting investment planning and management by creditworthy sub-sovereign municipalities and utilities³.

The 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 is being 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.
- **Targeted financing.** To develop a solid pipeline of bankable projects which could result in rapid financing and provide for the scale-up of project components, a specific window, in the forms of a multidonor Trust Fund, will be established to provide incremental financing for project preparation activities, including economic, technical, social, environmental, institutional, and financial aspects. All IFIs participating in INFRA will have access to this concessional window, provided they are part of the INFRA Platform. Priority projects, to be identified mainly through the diagnostic assessment, will also require concessional financing; hence another concessional window could be established for countries under financial stress, to provide temporary subsidies to infrastructure services 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

³ 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).

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. 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.

- **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.

Acceleration of the Clean Technology Agenda. INFRA will have a particular focus on green investments and will support Governments who want to use infrastructure investments to advance the “green agenda”. This will be done by leveraging financing for the pipeline of investments from new facilities, such as the Carbon Partnership Facility, Clean Technology Fund, green bonds and from similar programs managed by other Donors.

Due to the severity of the impact the crisis on Africa, a specific **Africa INFRA** Program under INFRA is being developed to finance a package of high priority, high return infrastructure investments. **Africa INFRA** focuses on areas with proven high impact. It aims particularly to: (i) safeguard implementation of some highest priority regional integration projects; (ii) preserve strategic infrastructure assets, maintenance spending, and support selected new projects (otherwise likely to be dropped from the government financing in the absence of INFRA); and (iii) preserve investments in urban infrastructure. Countries benefiting from INFRA financing would also commit to make significant progress in key policy areas. Regional integration had become a new focus of recent infrastructure finance in Africa, helping provide effective linkages to regional and international markets. Most of Africa’s countries are simply too small to be able to develop infrastructure cost-effectively on their own. Regional integration holds the key to reducing Africa’s exceptionally high infrastructure costs. More effective road corridors can improve competitiveness of African products. Under IDA 15, the WBG is mobilizing about US\$2 billion from its own resources for Africa INFRA estimated at US\$5-6 billion. Thus, the financing gap for Africa alone is identified in the order of US\$3-4 billion, which is being sought from donors.

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 efficiency.

Financing and Next Steps

The response to the worst economic crisis must be global, coordinated, flexible, and fast. The World Bank estimates that in addition to its scale up efforts for financing, which would bring own infrastructure lending to US\$15 billion per year, substantial additional financing could be leveraged through the Platform via the parallel instrument (estimated in the order of US\$5 billion over three years) and especially if concessional financing could be made available (the estimated need is of US\$8 billion over three years including the financing gap for Africa identified in the order of US\$3-4 billion).

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 is currently working with IFIs and bilateral donors to further develop the Platform.