

INTER-AGENCY TASK FORCE  
ON FINANCING FOR DEVELOPMENT

## Issue Brief Series

# Closing the Infrastructure Gap

The World Bank Group

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## Closing the Infrastructure Gap The World Bank Group

### 1. Introduction

Reducing the infrastructure gap requires improvements in efficiency and quality of public investment in infrastructure and mobilization of public and private finance. On April 16, 2016 the MDBs participated in the first Global Infrastructure Forum to discuss how they can work together to implement the infrastructure dimension of the Addis Ababa Action Agenda<sup>1</sup>. The MDBs resolved to follow a two-pronged approach based on (i) supporting country-led approaches to planning, executing, supervising and evaluating sustainable, resilient, inclusive, and well-prioritized infrastructure programs and robust infrastructure frameworks; and (ii) consolidating and scaling up existing multilateral mechanisms to promote greater knowledge transfer, project preparation and implementation support in the form of global and regional platforms and tools, including de-risking and risk allocation mechanisms. To achieve these objectives the MDBs resolved to (1) improve data and information on infrastructure; (2) promote compatible, efficient approaches; (3) strengthen project preparations; and (4) promote financing for infrastructure. This Issue Brief summarizes the actions taken under each of these initiatives. It will provide the baseline for future monitoring. In addition, the **Global Infrastructure Forum** will meet annually and report on progress to UN Member States via the Financing for Development Forum.

### 2. Stocktaking

The following initiatives are under way.

#### 2.1 Improving data and information on infrastructure

- **The PPP Knowledge Lab became fully operational in April 2016**, with funding from the Public-Private Infrastructure Advisory Facility (PPIAF) and developed jointly by the African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), Inter-American Development Bank Group (IADBG), Islamic Development Bank (IDB), and the World Bank Group (WBG). This is the first time that the world's leading development agencies on PPP have shared their resources centrally.
- **The International Infrastructure Support System (IISS)**, which became operational in June 2016, is a new digital platform dedicated to speeding up the delivery of infrastructure in EMEDCs through standardized questions encompassing all aspects of the infrastructure project cycle. AfDB, ADB, EBRD, IADBG, IDB, and the WBG contributed to its development. Several project preparation platforms such as AP3F and the GIF are encouraging applicants to use IISS to strengthen their applications.

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<sup>1</sup> *Addis Ababa Action Agenda 14: Countries and development partners should work together to “improve alignment and coordination among established and new infrastructure initiatives, multilateral and national development banks, UN agencies, national institutions, development partners and the private sector.”* ().

- **The State of PPPs Report** was released by the WBG in June 2016. The report uses data from the WBG's Private Participation in Infrastructure (PPI) Database to analyze broad trends of PPP investment from 1991 to 2015. This work will help develop a common agenda to improve the enabling environment for PPPs and contribute to informed policy decisions.
- The Benchmarking Public-Private Partnership Procurement survey supports evidence-based and transparent decision making on PPP Procurement policies and reforms by providing comparable data on PPP institutional and regulatory frameworks and procurement processes across 82 economies. It is expected to be published in August 2016.
- **Infrascope**, a bi-annual benchmarking exercise to assess country readiness for PPP, was first launched by IDB's Multilateral Investment Fund (MIF) and the Economist Intelligence Unit (EUI) in 2009. The initial focus was on the LAC region. The benchmarking exercise was then extended to Asia and the Pacific by AsDB in 2011, and to the ECA and MENA regions by the EBRD in 2012 and 2015. MDBs are planning to build on these experiences to scale up the exercise to more regions and increase the frequency to provide a more regular assessment of the enabling environment for PPPs.
- After launching **the first Massive Online Open Course (MOOC) on PPPs** in the English language in June 2015, the WBG launched the **first MOOC on PPPs in French** in collaboration with *Agence Française de Développement* (AFD) and AfDB's African Legal Support Facility in June 2016.
- Also in June 2016, PPIAF released the French version of the second edition of the **Reference Guide on PPPs**, among other resources in French.
- The IADB, CAF and ECLAC are working jointly on the development of a database that tracks the evolution, by sector, of public infrastructure investment in Latin America and the Caribbean. The database, named INFRALATAM will be operational from August 2016 ([www.infralatam.info](http://www.infralatam.info))

### Diagnostic tools

- Among the WBG's recently-piloted diagnostic tools are the **Country PPP Readiness Diagnostic Tool**, which compares countries' legal and institutional frameworks to global best practice standards; **P-FRAM**, developed jointly with the IMF, is an excel based tool to identify and mitigate the fiscal risks of PPP projects; the forthcoming **Prioritization tool** will help governments prioritize their infrastructure projects in line with their national development strategy and poverty reduction strategy.
- An IMF tool, called **PIMA**, supports public investment management diagnostics. WBG has a similar instrument, called **PIM**.

### Global Infrastructure Connectivity Alliance Initiative

- Under Pillar 3 of the G20 IIWG 2016 work program, the WBG prepared a draft Vision Statement for the creation of the Global Infrastructure Connectivity Alliance—a virtual network. The Alliance will provide an impetus to regional and global trade facilitation, and hence catalyze sustainable and equitable growth for concerned countries.

### ***Good Practice/Capacity Building***

- **The APMG Public-Private Partnerships (PPP) Certification Program**, developed by the ADB, EBRD, IDB's the Multilateral Investment Fund (MIF), and the WBG and partly funded by PPIAF, strengthens the skills of PPP practitioners and aligns their practices to international standards.
- **Risk Allocation Matrix:** In June 2016, G20 Deputy Ministers discussed a report on Allocating Risks in Public-Private Partnership Contracts, developed by the Global Infrastructure Hub (GIH).
- The purpose of the **Second (2016) edition of the Report on Recommended PPP Contractual Provisions** is to foster greater understanding of a set of key contractual provisions found in virtually every PPP agreement. The overarching objective of this initiative is to promote quality, consistency and efficiency in legal documentation for PPP projects. The report's first draft was discussed during the GIH-WBG-MAS-OECD Workshop on May 31, 2016 in Paris. Its second draft was presented at a workshop on July 14 and 15, 2016 in Pretoria, jointly hosted by the WBG and the African Legal Support Facility (ALSF). Following a phase of public consultations, the 2016 edition of the Report will be published in December 2016.
- **Improving transparency in PPPs and infrastructure:** The WBG and the OECD are working with partners on a Framework for Disclosure in PPP to be piloted in four countries in FY 17.
- **PPP Selection/Screening** is being undertaken by the WBG, OECD, and GIH with the objective of producing technical guidance and a screening tool by the end of FY 17.
- MDBs will continue to work with the GIH and other fora in compilation of baseline investor documentation, targeting of capacity gaps, sharing of good practice, addressing data gaps that matter to investors, and enhancement of project pipeline information.

## **2.2 Promoting compatible, efficient approaches**

### ***MDBs balance sheet optimization***

- G20's MDB Action Plan on Balance Sheet Optimization was endorsed by leaders at the 2015 Summit in Antalya. During 2016, several measures taken by the MDBs such as Exposure Exchange Agreements between the IDB, AfDB and WB, and work towards leveraging concessional windows in AsDB and IDB, among others, were reviewed by the G20 DWG and IIWG. The final report will be delivered to the G20 Finance Ministers and Central Bank Governors in July 2016.

### ***Scaling up MDB investments***

- Under Chinese leadership of the G20 IIWG in 2016, the MDBs unanimously endorsed a Joint Declaration of Aspirations (JDA) on actions to support infrastructure investments. The JDA includes "quantitative ambitions for high quality projects" from each MDB.
- The **MDB Task Force on Measuring Private Investment Catalyzed** is working on recommendations on a common set of terms and definitions and propose a methodology to measure the amount of private investment jointly catalyzed by the MDBs, and is expected to report on progress during the IMF/WB 2016 Annual Meetings.

### 2.3 Strengthening Project Preparation

- The latest addition to the project preparation facilities financed and managed by MDBs is the **AfDB's Infrastructure Project Preparation Support Facility** which will operate through the Africa 50 Infrastructure Fund. These facilities include the MDBs' Global Infrastructure Facility (GIF) which is housed in the World Bank, ADB's Asia Pacific Project Preparation Facility; IDBG's *InfraFund*, *AquaFund* and FIRII; EBRD's Infrastructure Project Preparation Facility; and several EIB's managed facilities including JASPERS (Joint Assistance to Support Projects in European Regions) co-sponsored with the European Commission (EC) and EBRD, EPEC (European PPP Expertise Centre), and the Southern Neighbors Advisory Program for Transport (SNAP-T) co-funded with the EC, and IFC's *InfraVentures*.

### 2.4 Promoting financing for infrastructure

- In 2015, under the G20 Turkish Presidency, the IMF, the OECD and the WBG delivered a joint paper on the potential use of **bond markets** to finance infrastructure, highlighting considerable unrealized potential and the needed financial sector reforms. In 2016, under the G20 Chinese Presidency, the OECD delivered a guidance note on the use of capital markets to finance infrastructure and SMEs. The WBG contributed a note on **infrastructure project bonds**, which represent a promising **asset class** to complement traditional funding tools and other non-bank instruments (debt or equity funds). A recent G20 non-paper – authored by Canada, EU, USA, Singapore – explored ways for MDBs to foster such development through a series of upstream (project preparation) and downstream (funding) initiatives, including risk transfer vehicles, forex hedging services, post construction securitization, and guarantees.
- **Local currency bond market:** At the request of the G20's International Financial Architecture Working Group (IFAWG), the IMF and WBG prepared a joint report on the development of Local Currency Bond markets (LCBMs), with a particular focus on emerging markets.
- In July 2016, **ADB's** Credit Guarantee and Investment Facility (CGIF) launched the **Construction Period Guarantee (CPG)**, a new product aimed at mitigating construction risks for long term investors who are concerned about greenfield infrastructure projects.
- The **Managed Co-Lending Portfolio Program ("MCPP")** will scale up IFC's debt mobilization from institutional investors. Under this platform, IFC has mobilized US\$50 billion in syndicated lending over the past five decades, with infrastructure comprising 50 percent of the current portfolio. While this will continue to be a major source for mobilization going forward, the traditional approach to syndications is expected to be insufficient to satisfy future demand. Creating new mechanisms to crowd-in private debt capital, especially from institutional investors, will be a key pillar of IFC's infrastructure strategy in the near to medium term.
- Under the auspices of IFC's Asset Management Company, the **Global Infrastructure Fund** was set up in 2013 as a closed-end fund to act as a bridge connecting large global investors to emerging markets. To date, GIF has committed \$447.1 million directly to eight companies based in Brazil, China, Colombia, India, Turkey and Nigeria. In addition, GIF's investors have committed \$650 million directly to three of the eight companies.

- The GIF is currently putting the final touch to its downstream window

### **3. Policy options and recommendations for corrective action**

There is a general consensus among the development community that the deficit of economic infrastructure in EMEDCs will require not only the combined resources of the public and private sectors along with those of the MDBs, but also an improvement in spending efficiency and, where appropriate, cost recovery.

Increasing private investment flows to the levels initially hoped for has proven challenging, particularly in LDCs where deep and broad institutional reforms and sustained capacity building are imperative. On average, private participation in infrastructure currently accounts for 33 percent of total investments in transport, energy, and water and sanitation in EMDCs. Scaling up this number requires sustained efforts over the medium term.

In the meantime, improving the efficiency of public sector delivery along the project cycle could translate into large savings, free up resources for additional investments, enhance the resilience, quality and sustainability of infrastructure delivery, and encourage greater private participation. There is also scope to increase public infrastructure investment in EMEs, despite limited fiscal space. Governments can increase funding streams by raising user charges where appropriate, capturing property value, or selling existing assets and recycling the proceeds for new infrastructure. In addition, more rigorous analysis is needed in each country to define its needs in relation to the social, economic, and environmental sustainability objective it sets for itself – be it universal access to basic service, increased competitiveness, the SDGs, and/or the country's COP21 commitments. At the same time, country specific demographics trends, the growth of the middle class, urbanization trends and climate change should be taken into account as they affect both demand and appropriate design.