

WBG Infrastructure Response to the Crisis



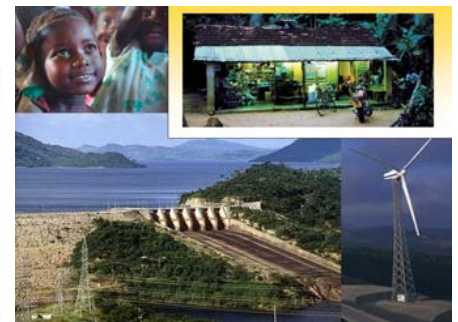
April 2009



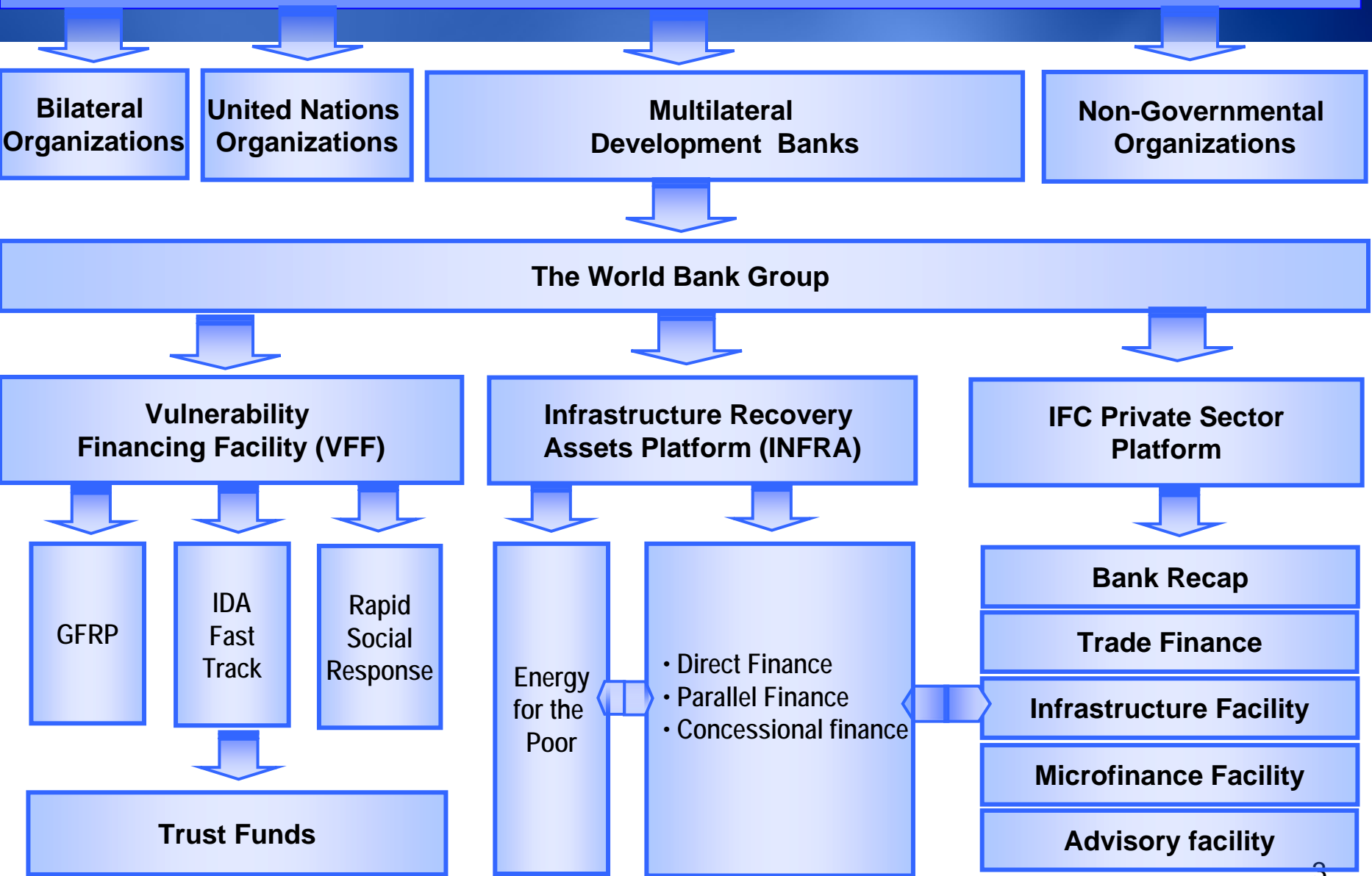
I. Context and Background

II. Infrastructure and the Crisis

III. WBG Response to the Crisis: INFRA



"The Vulnerability Fund" 0.7 Percent of Stimulus Packages



What started as a financial crisis....

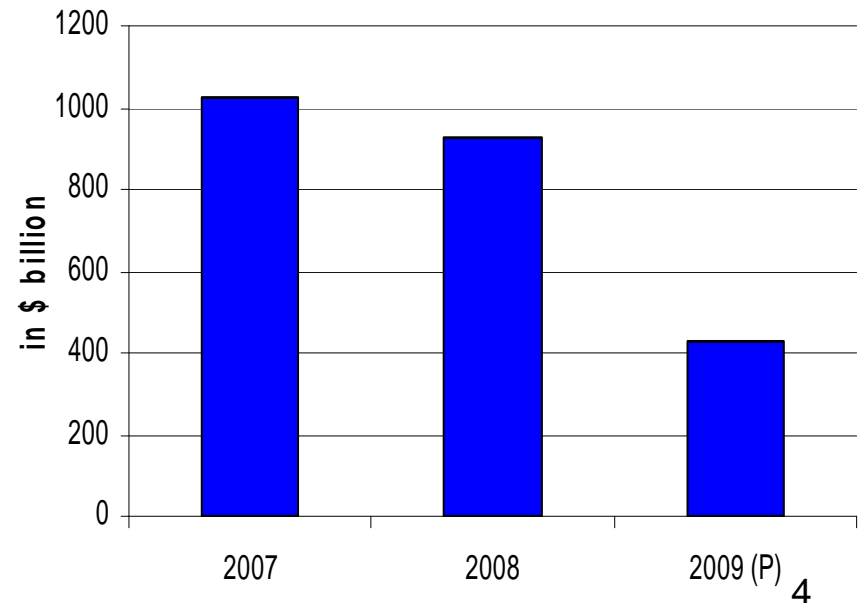
❖ The financial crisis has severely impacted emerging markets' access to foreign capital, with risk spreads widening and credit standards tightening

❖ Private flows to developing countries are now significantly lower than the peak of 2007

EMBIG over US Treasuries
(January 1, 2006 - February 5, 2009)



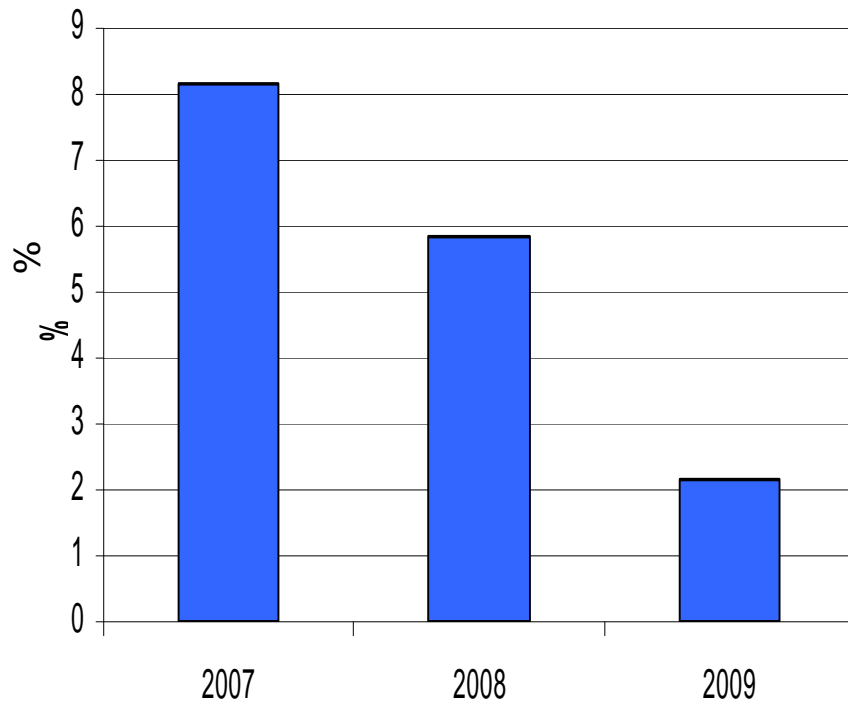
Private Capital Flows to Developing Countries



.....now is an economic crisis

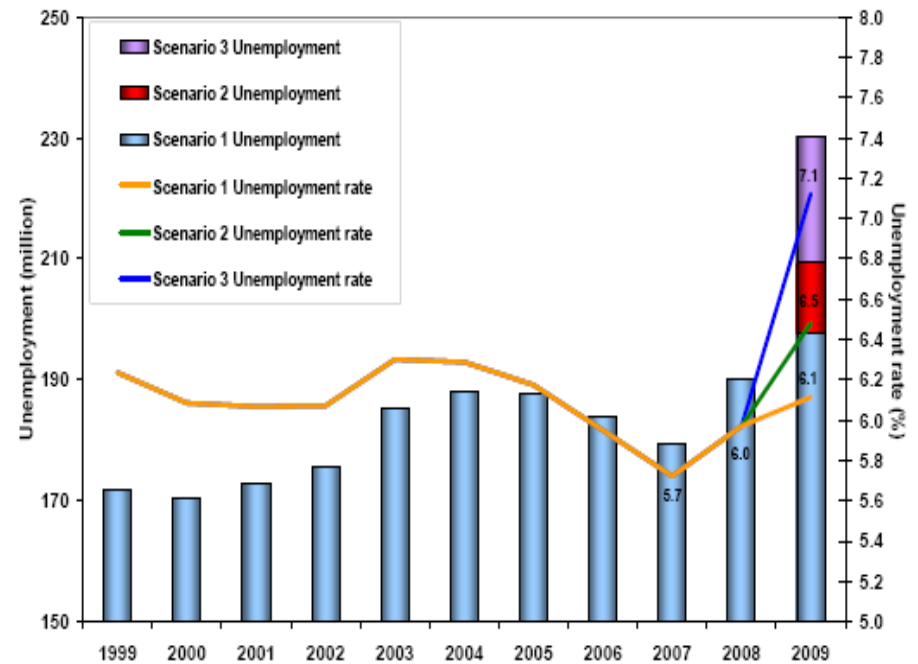
With lower economic growth in developing countries and higher global unemployment

Economic Growth of Developing Countries



Source: World Bank

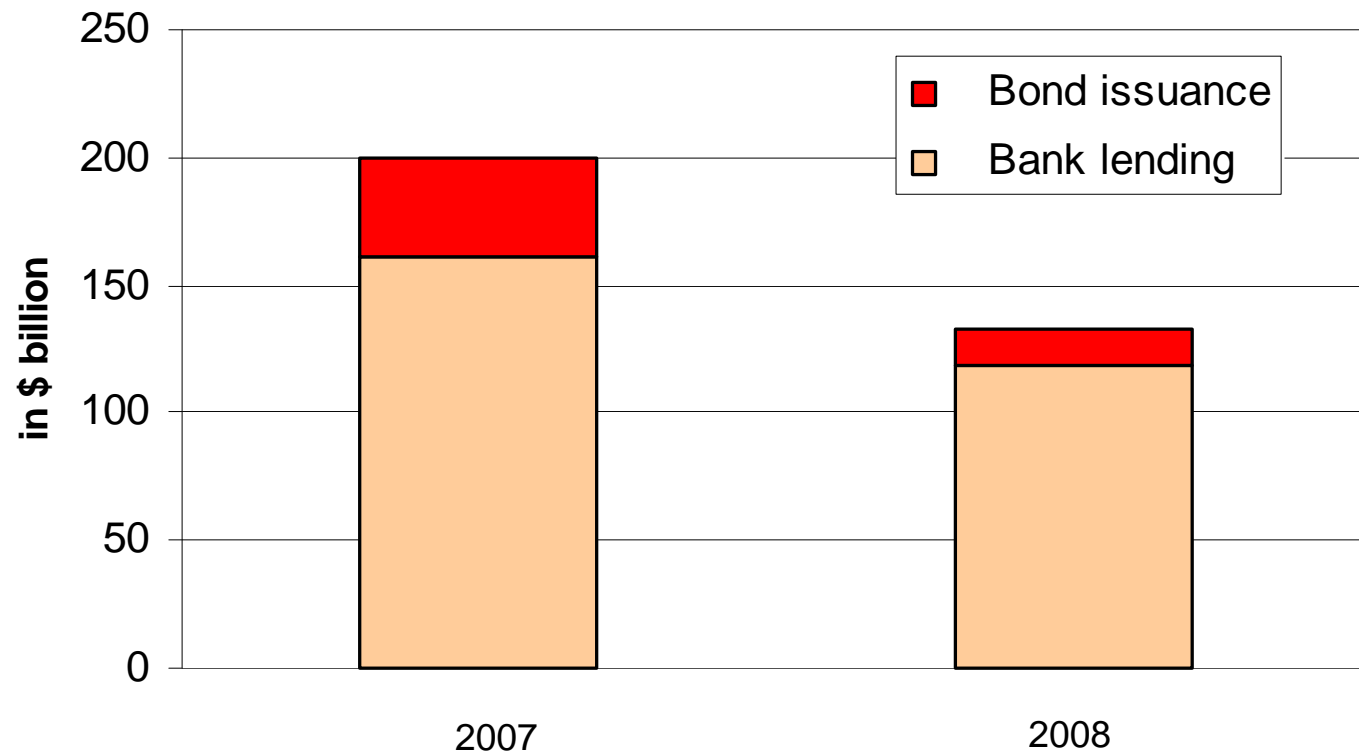
Global unemployment according to three scenarios



Source: ILO, Trends Econometric Models, December 2008

Financing for infrastructure in developing countries is drying up

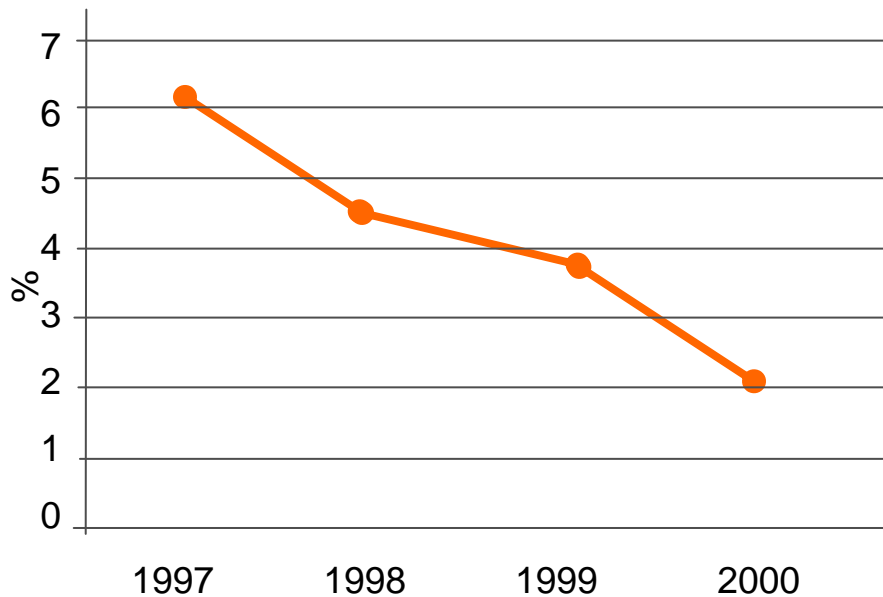
Capital market financing for developing countries' infrastructure



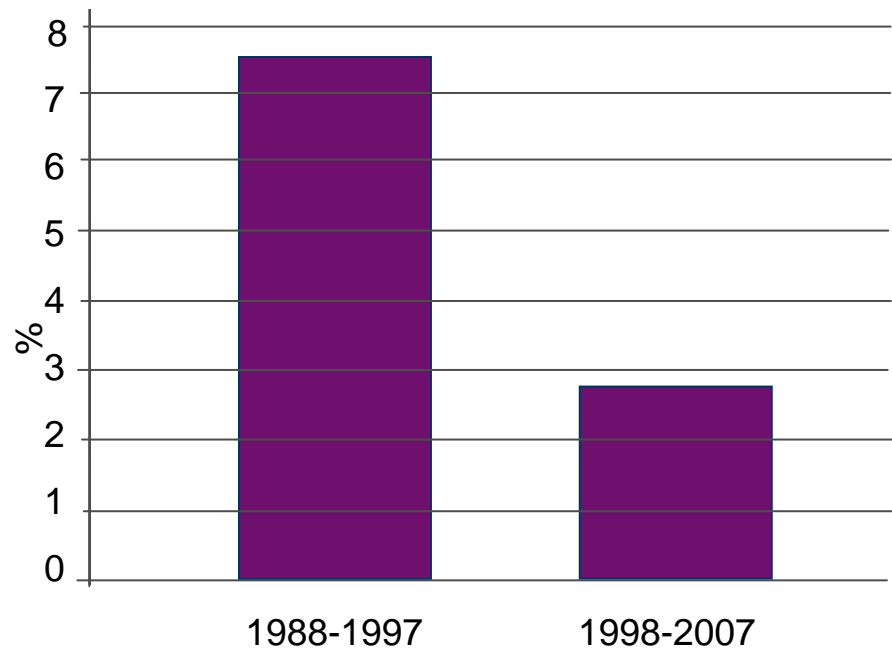
Decline in infrastructure spending leads to decreased growth....

In Indonesia, decline in total infrastructure spending following the 1997 Asian crisis was accompanied by declining growth

**Indonesia Total Infrastructure Investment
(% of GDP)**

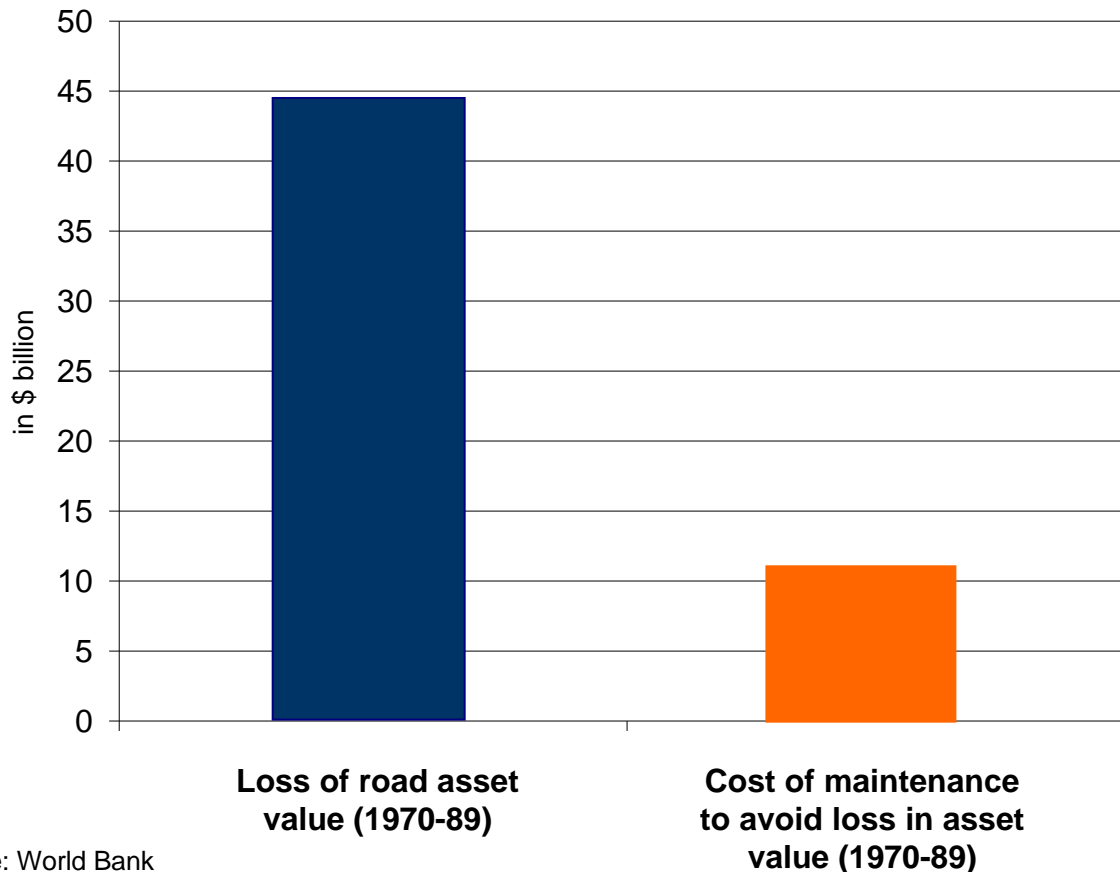


Indonesia Average GDP Growth



....and decline in infrastructure spending on maintenance has costly consequences

Maintenance Vs Replacement Costs of Roads in Developing Countries

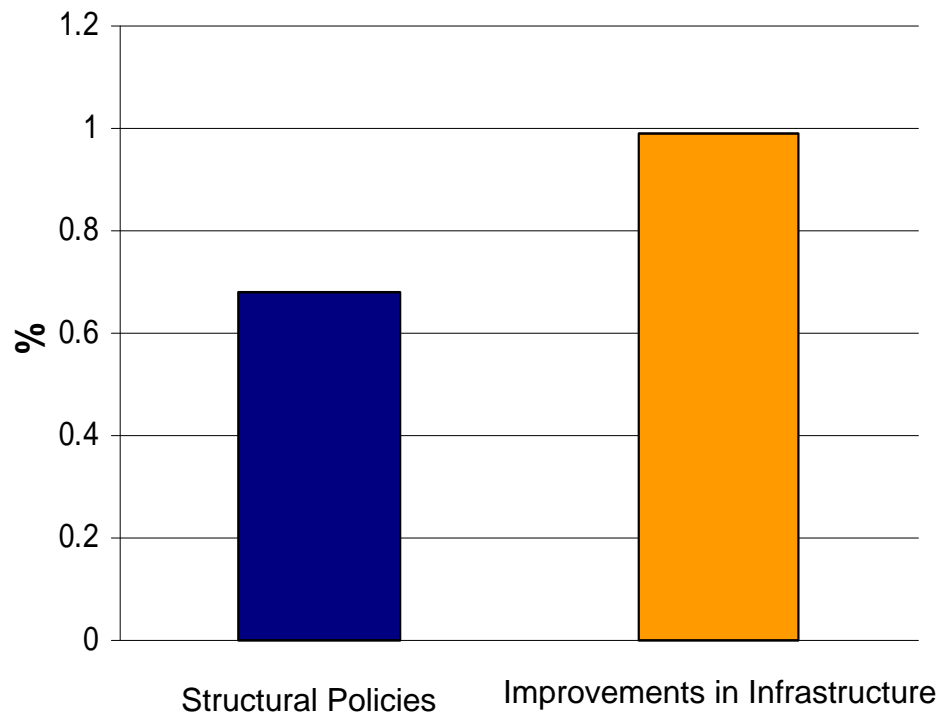


Source: World Bank

...Africa could lose a key source of growth

- ❖ Infrastructure investments are partly responsible for the recent improved growth performance in Africa
 - Infrastructure improvements were aided by surge in external capital flows from \$ 4 billion in 2002 to \$20 billion in 2007
 - Regional integration had become a new focus of recent infrastructure finance helping provide effective linkages to regional and international markets
- ❖ Additional investments could have yielded further dividends
 - \$40 billion additional spending necessary to meet economic and social needs over next decade
 - Improving infrastructure in all African countries to the level of Mauritius could increase per capital economic growth in the region by 2.2 percent
- ❖ The crisis threatens recent gains
 - Reduced private flows and fiscal space for infrastructure investments and maintenance in African countries

Contribution to per Capita Economic Growth in Africa (1990-2005)

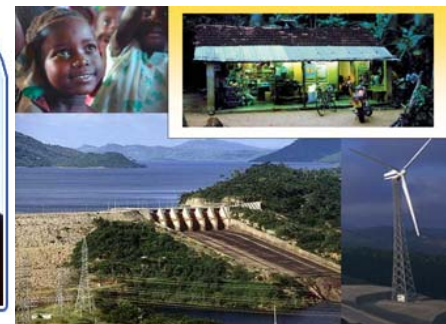


Source: World Bank

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Infrastructure spending as a fiscal stimulus measure

- ❖ Counter-cyclical public spending in infrastructure is an effective tool to create jobs and provide the foundation for economic recovery and sustained growth
- ❖ Transformational opportunity to invest in “green” Infrastructure
- ❖ The share of infrastructure spending in announced fiscal stimulus packages varies substantially across countries:
 - So far announced infrastructure spending for 2009 represents on average 64 percent of the total stimulus in emerging market economies and 22 percent of the total stimulus in high income economies

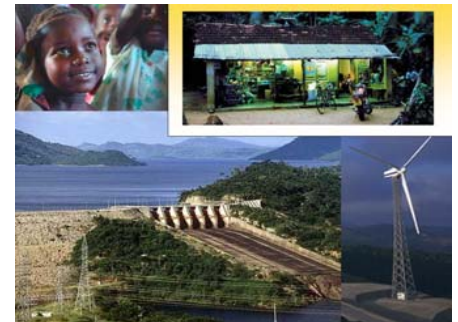
Infrastructure and the Crisis: areas of action

- 1. Stabilize** existing infrastructure assets
- 2. Ensure delivery of projects** that remain government priority
- 3. Support PPPs** in infrastructure
- 4. Support new infrastructure** project development and implementation

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Infrastructure Recovery and Assets (INFRA)

- ❖ brings **priority focus** on infrastructure investments and maintenance;
- ❖ **co-ordinates** a crisis response for World Bank Group pertaining to infrastructure; and
- ❖ provides a platform to work with development partners to **leverage finance**

WBG INFRA Platform Platform across WBG institutions

	IFC	World Bank	MIGA
FINANCING PRE-CRISIS	\$2.7 to 3.7 billion/year	\$11 to \$13 billion/year	\$0.7 to \$1 billion/year
FINANCING CURRENT	\$2.1 billion <i>Up to \$0.3 billion in Global Equity Fund under the Infrastructure Crisis Facility (1)</i>	up to \$15 billion/year currently <i>being reassessed based on regional scans and country priorities</i>	to be adjusted downwards <i>reflecting lower than anticipated FDI flow into INF</i>
INFRA RESPONSE INSTRUMENTS	<ul style="list-style-type: none"> ❖ IFC Infrastructure Crisis Facility (over 3 to 5 years) ❖ Support (IDA/IFC) pipelines ❖ Sub-national instruments 	<p>Scaled up Response (over 3 years):</p> <ul style="list-style-type: none"> ❖ Direct Finance support (IDA/IFC) pipelines ❖ Parallel finance expansion with bilaterals/other IFIs ❖ Concessional window for <ul style="list-style-type: none"> ❖ project preparation ❖ project financing 	<ul style="list-style-type: none"> ❖ Support (IDA/IFC) pipelines ❖ <i>Early 2009 Board discussion. Proposed reforms include:</i> <ul style="list-style-type: none"> • <i>New Product – covering non-honoring of sovereign financial obligations</i> • <i>Expanded coverage – more acquisition/restructuring projects will be eligible</i> • <i>Enhance Breach of Contract coverage for SOEs on selective basis</i>

(1) Scale up constrained by balance sheet

IBRD/IDA INFRA Platform

Action points to respond to crisis

OBJECTIVES

ACTIONS

1. Stabilize existing infrastructure assets



- ❖ Project restructuring of existing portfolio
- ❖ Support countries to manage currency, interest rate, and commodity risk
- ❖ Development Policy Operations and other lending operations

2. Ensure delivery of projects that are a government priority



- ❖ Accelerating disbursements of existing projects
- ❖ Additional financing (loan and guarantee) for ongoing projects
- ❖ “Green” infrastructure: advance climate change and low carbon agenda
- ❖ Ramp up sub-sovereign lending and related advisory services
- ❖ Deferred Drawdown Option (DDO); non-IBRD hedging instruments

3. Support PPPs in infrastructure



- ❖ Support to public commitments to PPP projects (finance and advisory)
- ❖ Increased use of guarantees
- ❖ Innovative instruments: OBA subsidies complementing user fees
- ❖ Coordination with IFC Infrastructure Crisis Facility

4. Support new infrastructure development and implementation



- ❖ Advice to governments that launch growth and job enhancement programs
- ❖ Support to PERs, MTEFs, increase government capacity to plan, prepare, implement, and manage infrastructure assets
- ❖ Implement *Energy for the Poor Initiative*

❖ **Direct Finance**

- Investment Lending
- Development Policy Operations
- Additional financing
- Guarantees
- Sub-national financing
- IBRD enclave financing in IDA countries
- Risk management products for IBRD countries

❖ **Parallel Finance**

- Financing from different bilaterals and IFIs for priority infrastructure projects

❖ **Concessional Finance**

- Project preparation grant facility
- Additional concessional finance for infrastructure investments to help deliver infrastructure services to poor
- e.g. Energy for the Poor Initiative, Scaling-up Renewable Energy Program

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Energy for the Poor Initiative

- ❖ Launched in June 2008, EFPI aims at preserving investments to enhance energy access to the poor during a period of changing global environment characterized by the global crisis and increasing volatility of oil prices
- ❖ EFPI will
 - *in the short term*, raise grant financing to develop energy infrastructure programs with greater and direct impact on the poor; and
 - *in the medium term*, through co- and parallel financing with donors, scale up public and private sector projects that reduce the longer-term vulnerability of countries to higher oil prices.

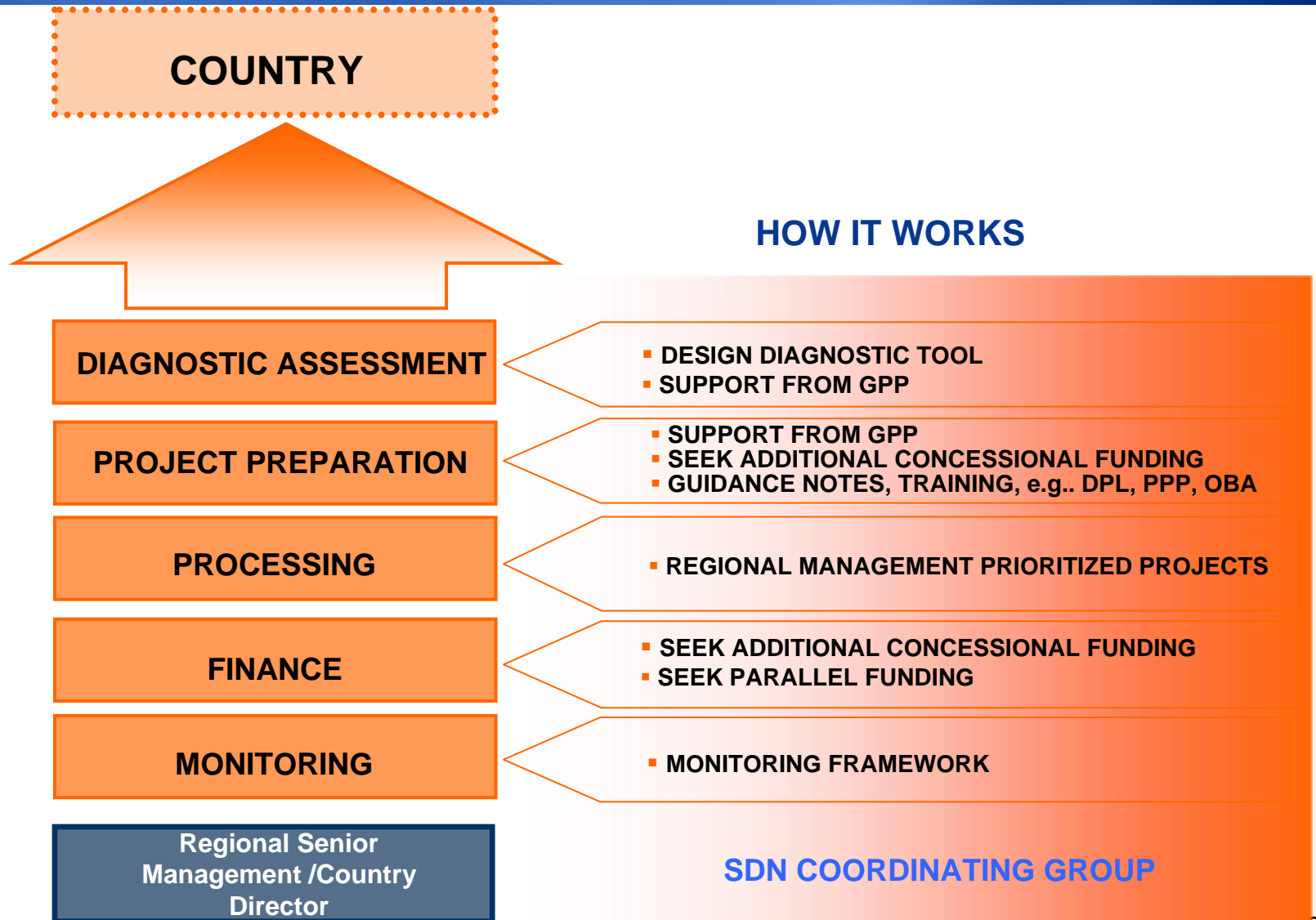
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Africa INFRA

- ❖ The specific Africa INFRA focuses on
 - Regional integration e.g. large scale regional generation and transmission projects, port facilities and access roads
 - Asset preservation, ‘saving’ of key projects and maintenance
 - Urban development e.g. expansion of basic urban services such as drainage, water, sanitation, street lighting
- ❖ Africa INFRA funds projects with a mix of short term employment generation and medium term growth impact
- ❖ It targets countries willing to engage in complementary infrastructure policy reforms
- ❖ The size of the Africa INFRA would be US \$5-6 billion

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How it works



❖ Strategic Country Reviews

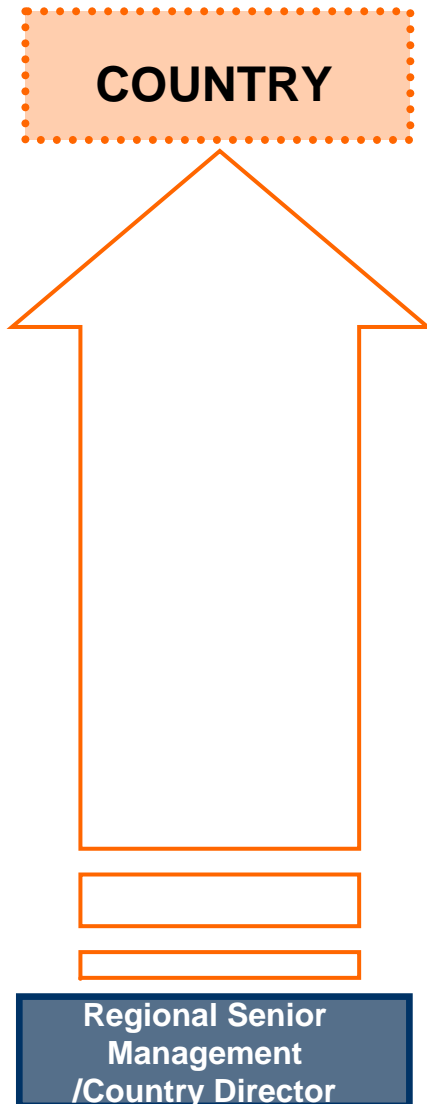
- Assessment of fiscal space constraints
- Assessment of actual needs and spending in the infrastructure sector
- Assessment of sector policy, regulatory framework and governance

❖ Country Specific Diagnostics

- INFRA Targeted Portfolio Performance Reviews
- Assessment of analytical gaps
- Identification of entry points for policy dialogue




To be partially funded through existing GPPs

IBRD/IDA INFRA Platform Monitoring and Reporting



- ❖ **INFRA Diagnostic Outcome Indicators (quarterly)**
 - At country level
 - Number of projects identified by RVP to have priority
 - Expected WBG INFRA intervention
 - **“Green” infrastructure**
 - **Expected parallel financing**
 - **Expected numbers of jobs created or saved**
- ❖ **INFRA Project Indicators (quarterly)**
 - “Green” infrastructure
 - Status
 - Amount
 - Type of instrument: DPO, Investment Loan, Sub-sovereign, other
 - Amount of parallel financing
- ❖ **INFRA Priority Processing Indicator**
 - Measures how quickly INFRA projects are processed against regional benchmarks
- ❖ **INFRA Concessional Window Indicators (quarterly)**
 - By donor
 - By type of funding: TA, concessional
- ❖ **SIAP Portfolio Monitoring**
 - Ongoing monitoring through Business Warehouse

INFRA response will be characterized by:

- ❖ **Timeliness**  Swift response in the short term e.g. projects ready for implementation
- ❖ **Targeting**  Projects that have employment generation potential and are a government priority
- ❖ **Productivity and growth**  Projects that remove infra. bottlenecks and enhance long term productive capacity