

Infrastructure Action Plan

SUBMISSION TO THE G20 BY THE MDB WORKING GROUP ON INFRASTRUCTURE*

October 2011

* The MDB Working Group on Infrastructure comprises the African Development Bank (AfDB), Asian Development Bank (AsDB), European Investment Bank (EIB), Inter-American Development Bank (IADB), Islamic Development Bank (IsDB), and World Bank Group (WBG).

Contents

Introduction..... 3

Unlocking the project pipeline with technical assistance and targeted financial support 3

- 1. Improving Project Preparation Funds (PPFs) Effectiveness 3
- 2. Developing Catalytic Regional Projects..... 4
- 3. Expanding Technical Assistance through expanded PPP practitioners’ networks 5
- 4. Increasing incentives for MDB staff to engage in PPP transactions and regional projects. 6
- 5. Piloting an Africa Infrastructure Marketplace 6
- 6. Improving Procurement Practices to Facilitate Collaboration with the Private Sector and amongst MDBs..... 7

Helping countries improve spending efficiency 7

- 7. Launching a Global Infrastructure Benchmarking Initiative 7
- 8. Scaling up the Construction Sector Transparency Initiative (CoST)..... 8

Annex 1 Improving Project Preparation Facilities Effectiveness 10

Annex 2. Developing catalytic regional projects—Criteria for Project Prioritization 12

Annex 3. Building on Networks: A Proposal to Expand Capacity Building for PPPs through Practitioner Networks 14

Annex 4. “Sokoni”, Africa’s Infrastructure Marketplace..... 17

Annex 5. A Global Infrastructure Benchmarking Initiative 19

Annex 6. The Construction Sector Transparency Initiative (CoST): Launching the CoST Global Program 24

Introduction

The MDB Action Plan reflects extensive analysis and collaboration among the multilateral development banks and follows on a background report on infrastructure issues in developing countries provided to the G20 in June 2011. It describes an ambitious and concrete set of initiatives aimed at (i) unlocking the infrastructure project pipeline, notably to allow for increased private sector participation and financing, and (ii) improving infrastructure spending efficiency. The MDB Working Group has devised, in close consultation with the G20 High Level Panel on Infrastructure (HLP), specific proposals for many of these initiatives that are set out below. Additionally, the issues raised by the MDBs, HLP, and G20 regarding the Debt Sustainability Framework have been noted for consideration during the current DSF review process. The World Bank Group and IMF boards will address the review in late 2011.

Unlocking the project pipeline with technical assistance and targeted financial support

Tackling the project preparation issue fits well with both the G20 agenda and the MDBs' priorities. The G20 has pledged to address key constraints on regional projects and private-public partnerships (PPPs) for regional infrastructure projects in low-income environments. MDBs are increasing their focus on their ability to leverage their own limited resources by working with the private sector to increase operational efficiency and by increasing attention to catalytic and regional projects. Concurrently, MDBs are calling on the G20 to support the successful replenishment of MDBs' concessional funds – notably the Asian Development Fund, whose replenishment is currently under discussion – which enable MDBs to conduct concessional lending operations for developing infrastructure in low-income countries.

Inadequate financial and technical resources for project preparation—whether for development of PPPs or for regional projects—are a key bottleneck. However, this can be addressed in the short to medium term without entailing a large amount of additional resources during this fiscally constrained period with the following actions:

1. Improving Project Preparation Funds (PPFs) Effectiveness

MDBs agree—and call on G20 countries to do the same—to: (i) support the Infrastructure Consortium for Africa's plan to commission an assessment of existing project preparation facilities (PPFs) in Africa, which would provide the basis for restructuring a number of such PPFs with the goal of having fewer, more effective facilities to address the development of PPP projects and particularly regional projects; (ii) reserve a greater portion of multilateral as well as bilateral funds allocated to infrastructure financing in developing countries to project preparation.

Background. A key constraint in increasing private participation in infrastructure in low-income countries lies with the lack of bankable projects. This in turn is due to a combination of weak legal and regulatory frameworks and limited PPP expertise, in addition to the insufficient amount of resources available for project preparation (meaning the whole spectrum of activities that have to take place

before a project can be of interest to potential financiers—the institutional, legal, social, environmental, financial, regulatory, and engineering studies and advisory services that are needed to go from concept to a clearly defined and properly structured project, with clear identification and allocation of risk.) This initiative aims to raise awareness of the lack of bankable projects and the need for increased attention to the necessary institutional framework and adequate provisioning for project preparation. The Infrastructure Consortium for Africa (ICA) will discuss with members ways to commission an assessment of existing project preparation facilities in Africa, building on a stocktaking exercise (update of the ICA Project Preparation User Guide) already underway and managed by the ICA Secretariat.

Supporting document. Annex 1 Principles for Project Preparation Fund Effectiveness.

2. Developing Catalytic Regional Projects

Some regional projects have the potential to be transformational in helping to provide the access to markets and essential services critical for promoting inclusive and sustainable growth. Blockages occur in getting these projects to a sufficient stage of readiness to attract public and private investments. Additional resources (technical and financial) are needed to ensure existing or new project preparation facilities have the scale and know-how required to unlock the project pipeline for catalytic regional projects.

Background. Criteria have been developed to guide the identification and prioritization of catalytic regional projects. These criteria have been discussed with the HLP and G20 members and include:

1. **Regional integration** – the extent to which the project brings about regional integration;
2. **Political support** – the extent to which the project has been officially endorsed;
3. **Transformation** – the magnitude of the project’s potential development impact and the extent to which it promotes environmentally and socially sustainable development;
4. **Maturity** – how far along the project is in the preparation process;
5. **Institutional capacity** – the capacity of the relevant institutions to implement the project;
6. **Private sector potential** – the project’s potential to raise private sector finance;

In addition, G20 members have noted the importance of projects promoting environmental sustainability —notably energy projects, as highlighted in the Seoul Development Consensus.

In the case of Africa, the Programme for Infrastructure Development in Africa (PIDA), spear-headed by the African Union, will provide the strategic framework for the prioritization of transformative regional projects going forward. PIDA, once endorsed by all African Heads of State in January 2012, will provide a good basis for G20 to support the efforts of African countries to upgrade their infrastructure and improve connectivity on the continent.

Catalytic and regional projects require substantial resources to prepare – in Africa alone some \$500 million is needed to unlock high-priority regional projects; even more is likely required for low-income Asian countries. While many facilities exist – at least in Africa – none has the scale and resources needed to develop these projects. New efforts would involve facilities (new or existing) based on the following principles:

- No ceiling on amounts per project as catalytic, regional projects can require very large sums for preparation (e.g. \$100 million for Inga)
- Risk-sharing support for the private sector. This may include making funds directly available to the private sector under some circumstances—private firms often consider the developmental risks associated with the size and/or complexity of large regional projects to be too high to bear alone; as such the private sector is therefore often looking for public support in order to ‘risk-share’ on project preparation.
- Dedication to regional projects (or at least dedicated share for regional projects) or else national projects will absorb all the funds.
- Adequate staffing with deep technical knowledge on project development.

Efforts could include merging or expanding existing facilities and tapping concessional funding available, but will also require new and additional resources. Well-structured regional PPFs will help address regional infrastructure needs. MDBs, possibly with staff seconded from G20 countries with solid PPP and regional infrastructure experience, could help ensure that these facilities have the technical know-how and staff to help move the projects forward. MDBs call on the G20 to support PPFs for regional operations, alongside the endorsement of the Programme for Infrastructure Development in Africa (PIDA) and projects identified by the G20 as particularly worthy of political and financial support.

Supporting document. Annex 2 sets out the criteria for identifying critical projects.

3. Expanding Technical Assistance through expanded PPP practitioners’ networks

PPP practitioner networks are a critical complement to domestic capacity-building efforts and external TA. Expansion to better serve the needs of developing countries will require a coordinated effort by MDBs to develop and strengthen regional PPP practitioner networks and to resource them adequately with the support of G20 members with experience in PPPs.

Background. Country- and donor-level efforts to build PPP capacity and knowledge would be greatly strengthened by access to networks of PPP professionals to help develop the legal and regulatory frameworks for PPPs, as well as to support the development of PPP units in each country. A network of PPP peers provides opportunities for knowledge exchange and the transfer of experiences via practitioner-to-practitioner (P2P) exchange. It also provides an opportunity for these professionals to work together to develop common approaches, leading perhaps to harmonized frameworks and contracts in line with best practice. This should reduce the costs to the private sector in entering national markets and achieve more efficient scale in capacity building and training activities. These

sources of PPP expertise can also serve as a platform for engaging the private sector as well as critical stakeholders, such as politicians and civil society organizations. Steps required for strengthening such networks include coordinated efforts by MDBs to develop and strengthen regional PPP practitioner networks and to put in place mechanisms for “network-to-network” cooperation. G20 members with PPP experience could contribute experts to such networks.

Supporting document. Annex 3 Proposal to Expand Capacity Building for PPPs through Practitioner Networks, in line with the HLP proposal outlined in its report.

4. Increasing incentives for MDB staff to engage in PPP transactions and regional projects.

The World Bank and AsDB are finalizing plans to introduce incentives for staff to focus on leveraging rather than lending resources and to undertake complex catalytic and regional projects.

Background. Regional projects tend to take longer and cost more to prepare and client countries are often hesitant to borrow against their scarce concessional resources for projects that may be a regional rather than domestic priority. Similarly, booking PPP transactions may not be the highest priority of staff on the ground in low-income countries. MDBs are therefore engaged in further aligning internal incentives to promote PPPs and complex catalytic and regional projects – where these are an important complement to traditional lending – even in challenging environments. As part of their ongoing internal management efforts to better leverage their resources, the World Bank and AsDB are introducing such plans, and other MDBs are also considering similar initiatives. These can include, for example, incentives for staff to focus also on mobilizing and leveraging additional resources, rather than only on preparing and committing the institution’s lending resources, as well as a range of measures to encourage staff to undertake complex regional projects, which may be longer-term and more challenging in nature than other projects. In the case of the World Bank, steps include setting goals for private sector participation in infrastructure (tailored to country and regional circumstances); reporting and monitoring such activities; strategic staffing and deployment to fast track identification and preparation of critical projects and help unblock project specific delays; and peer recognition for leveraging resources and promoting transformational projects.

5. Piloting an Africa Infrastructure Marketplace

MDBs support the establishment of an Africa Infrastructure Marketplace (Sokoni) developed by the AfDB, which will (i) empower project sponsors and development officials to advertise projects and (ii) enable donor governments and potential financiers to easily identify African projects of interest. The Marketplace will be built on a technology platform that will support public, private, and public-private partnership (PPP) projects and will enable electronic connections between project sponsors, capital providers, and expert advisors worldwide, while preserving business confidentiality. Similarly, AsDB has developed a National Infrastructure Information System (NIIS), which is a web-based platform for

sharing information on infrastructure projects currently piloted in India, Kazakhstan, Philippines and Viet Nam. AsDB will cooperatively assist the development of Sokoni or equivalent systems elsewhere.

Background. Developing country infrastructure opportunities have no market exchange platform where capital providers (i.e. lenders, investors, donors, and developers) meet project sponsors, whether public or private. Similarly, developing country government agencies and project sponsors also face challenges in finding market partners for their deals. The current paradigm for developing country infrastructure is one of great market fragmentation, substantial information asymmetries, and high transaction costs. These characteristics generally impede the growth of the market and limit the potential for cross-border capital flows into this important sector. This is particularly the case in Africa, which is why MDBs support AfDB's development of an Africa Infrastructure Marketplace which could eventually be expanded to other regions or combined with existing initiatives such as NIIS.

Supporting document. Annex 4: "Africa Infrastructure Marketplace"

6. Improving Procurement Practices to Facilitate Collaboration with the Private Sector and amongst MDBs.

Procurement practices of MDBs can be better adapted to effective collaboration with the private sector and with each other.

Background. Despite much progress, procurement practices of the public sector arms of MDBs do not always allow for smooth collaboration with the private sector. MDBs have been working on changes in procurement procedures designed to bring greater flexibility in PPP procurement and adapt it to the needs and realities of transactions involving the private sector and to country contexts. The MDBs Heads of Procurement met October 10-14th and agreed to a harmonized Guidance Note covering procurement issues in PPPs when MDBs make sovereign loans. MDBs have agreed to harmonize their guidelines on PPP projects and to make available publicly such Guidance Note. This should facilitate collaboration amongst MDBs and with the private sector.

As to the remaining obstacles to improved MDB collaboration (critical for large projects), they are not strictly speaking a procurement issue. One obstacle to designating a "lead bank" lies with bidder eligibility being tied to membership, which varies across the regional development banks (RDBs) and is typically set in RDBs' articles of agreement. As such there is a need to find practical solutions for supporting waivers to eligibility rules for co-financed projects among RDBs. Such waivers for specific co-financed projects are already provided by some RDBs but blanket exceptions for joint projects may be preferable.

Helping countries improve spending efficiency

7. Launching a Global Infrastructure Benchmarking Initiative

This would mandate the MDBs to cooperatively expand the Africa Infrastructure Country Diagnostics to other developing regions and would entail an annual budget of \$2-8 million depending on country coverage (LICs, all developing countries or global) and frequency (biennial or quinquennial).

Background. Better infrastructure data is the only way short-term global support can help tackle a long-term domestic agenda. Infrastructure is a traditionally unmeasured field. This changed with the advent of the AICD, which emerged out of the Gleneagles summit. The data and analytical effort that resulted has yielded a baseline of needs, measured what is actually being spent, and identified inefficiencies and priorities for action. It has permitted benchmarking, a powerful way to promote improved efficiency. A similar initiative has also been successfully undertaken in the South Pacific.

The proposal is to build on this experience to develop an Infrastructure Benchmarking Initiative (IBI) that provides on-going data collection and associated analysis covering trends in infrastructure financing and performance with a globally consistent methodology that can yield meaningful benchmarks on infrastructure performance, and allow tracking of regional and national infrastructure trends over time. The IBI would cover the major network infrastructure (ICT; power, including generation, transmission and distribution; roads; railways; ports and airports; urban infrastructure; and water and sanitation). It would collect two types of data: on infrastructure *performance* (available infrastructure capacity, access to services, prices and costs of services, efficiency and quality parameters, etc); and on infrastructure *spending* from the central and local government budget, public enterprises, special funds, and public private partnerships.

Expansion of such an effort to all LICs would cost \$4 million, or \$8 million for all countries (including high income countries) annually for biennial data; or \$2-4 million per annum for quinquennial data. The G20 has a crucial role to play in highlighting the value and importance of such an effort, ensuring that the MDBs are requested to undertake and coordinate such a program on a global basis, and supporting efforts to raise the resources needed.

Supporting document. Annex 5 “Global Infrastructure Knowledge Program Concept Note.”

8. Scaling up the Construction Sector Transparency Initiative (CoST)

Scaling up involves the incorporation of new countries into the initiative (3-5 new countries will join CoST during 2011-12) and the deepening of CoST’s disclosure routines within the construction sectors of existing participants. G20 endorsement would be interpreted as a ‘green light’ by the bilateral and multilateral donors needed to support the global program. An annual budget of \$6 million would be required, of which \$0.5 million per year has already been committed by the World Bank for three years. Interested G20 members could help provide the remaining \$5.5 million per year needed to expand CoST to 25 new countries over the next five years.

Background. Mismanagement and corruption contribute to significant financial losses (estimated at 10 to 30 percent of a project’s value) during construction projects. The G20 could, at a low cost, support the Construction Sector Transparency Initiative (CoST), which improves project performance by

enhancing the accuracy and rate of information disclosure throughout the full project cycle, from design through completion phases. CoST adopts a multi-stakeholder framework, similar to the EITI, where participation by countries and members of the multi-stakeholder groups is voluntary. A Pilot Phase began in 2008 with eight participating countries: Ethiopia, Guatemala, Malawi, Philippines, Tanzania, United Kingdom, Viet Nam, and Zambia. The results of the pilot indicate that CoST offers a cost-effective, approach to increasing transparency in the global construction industry, although much remains to be done in each of these economies to provide the institutional support to ensure such transparency .

Supporting document. Annex 6 “The Construction Sector Transparency Initiative (CoST)

Annex 1 Improving Project Preparation Facilities Effectiveness

The G20 has emphasized the development of infrastructure as an important pillar to underpin strong, shared and sustainable economic growth, with a particular focus on regional infrastructure, and ways to leverage private sector investment for regional PPPs.

More resources are clearly needed for project preparation as practitioners agree that a binding constraint for increased private participation in infrastructure and to the realization of regional projects is the scarcity of well-prepared, bankable projects. Project preparation – at least for complex projects developed as PPPs – generally cost around 5 percent of total project investment (this can go up to 10 percent in some cases). Limited resources for project preparation will result in either not attracting private sector participation or the production of poorly designed projects that may later fail or incur costly renegotiations. Many project preparation funds exist, though they are unevenly distributed across regions of the developing world (50+ in Africa, very few in Asia) and many suffer from small scale and overly narrow rules of operation, which hamper their ability to help develop successful regional or PPP projects.

Opening up the project pipeline will therefore require a combination of strengthening well-functioning existing funds, possibly merging others, and creating new ones where there is a clear need, particularly at the regional level. As such the Infrastructure Consortium for Africa (ICA), which includes most of the PPF donors, will discuss with members ways to commission an assessment of existing project preparation facilities in Africa with the view of providing the G20 and donors with information about the performance of existing facilities and recommendations to strengthen high-performing funds, possibly merge others, and/or reform funds along the lines of the principles set out below. This assessment will take as a basis the information that is being collected through an ongoing effort to map existing facilities and identify the resources at their disposal.¹

In addition, going forward, MDBs recommend that all actors involved, including G20 members, draw on the following principles in their efforts to address the project preparation fund issue:

1. Increase resource mobilization for project preparation.

This will require efforts on the part of all actors:

- *Developing countries* should be encouraged to increase domestic resources for project preparation possibly through PPFs, offering matching grants or co-financing schemes rather than outright grants, as these expenses can be recovered from the successful private sector bidders. Where the project preparation costs cannot be recovered due to the project not going

¹ This is being done for the purpose of updating the ICA Project Preparation User Guide and a working version is expected end-2011.

through bidding successfully, governments (at least in middle-income countries) must share in the risks of PPP development by bearing the local costs.

- *Donors and MDBs.* Donors need to ensure funding for infrastructure projects is accompanied by a commensurate amount of resources for project preparation, notably for regional projects and PPPs. Similarly, MDBs will need to increase human and financial resources available for project preparation.
- *The private sector* is reluctant to invest in project preparation unless there are good prospects of recovering this preparation investment by an award of the project. In case of unsolicited proposals, they will find it more attractive to invest in project preparation if (i) the procurement rules of MDBs and project countries could be revised to ensure that the private sector can fully recoup its investments from another competitively procured bidder in ways that are fair and appropriate and (ii) PPFs are allowed to fund the private sector directly with any funding to be reimbursed upon contractual close based on an agreed schedule. In such direct funding, some cost sharing by the private sponsor should be encouraged.

2. Introduce greater flexibility to project preparation facilities to make them more effective.

- *Minimizing restrictions on the sectoral and types of preparation activities that individual funds can support* to avoid atomization of funds ;
- *Remove (where possible) ceilings on maximum grant size* that a given facility can provide;
- *Allow funds to provide grant resources to private sector project sponsors* with claw-back provisions upon contractual close.
- *Allow funds to finance detailed engineering design.*

3. Promote pooling of resources across funds through mergers and/or syndication arrangements

- *Avoid creating new funds except where a clear case exists.* Instead, encourage coordination and multi-donor windows within existing PPFs and, where possible and appropriate, encouraging the broaden of the scope of existing funds' areas of coverage (whether the stages of project preparation that a fund can finance, or the sectors);
- *Evaluate the scope for merging/rationalizing existing funds;*
- *Standardize application procedures across funds* to reduce transaction costs for those soliciting funds;
- *Harmonize rules and procedures applied by different funds to facilitate collaboration and syndication between funds around larger projects.* An interim solution could involve building on mechanisms developed by the Infrastructure Consortium for Africa (ICA) support to make information available on the different funds and the particular support they offer to ensure the various steps in project preparation can in fact be funded using a combination of funds as in a "tunnel of funds" approach.

Annex 2. Developing catalytic regional projects—Criteria for Project Prioritization

Each of the criteria outlined below can be scored on a scale of 1 (very little) to 5 (very much). The scores can then be summed together (on an un-weighted basis) to obtain an overall score out of 30. If desired, different weights could be applied to each score.

Regional integration. An infrastructure project can contribute to regional integration in at least two different ways. The first is to inter-connect two or more countries, by providing a “missing link”. Examples include cross-border power inter-connectors, international road corridors, and fiber optic links. The second is to provide an infrastructure asset that is a regional public good, bringing economic benefits that go beyond the frontiers of the country where the infrastructure is sited. Examples include ports that serve landlocked countries, or large scale power generation projects destined for export, or flood control infrastructure that brings protection benefits to downstream countries. From these definitions, it is clear that an infrastructure project does not have to be located on an international frontier, or physically cover more than one country, in order to be considered regional in nature. The number of (direct and indirect) beneficiary countries provides a crude way to quantify the extent to which a project promotes regional integration.

Political support. An infrastructure project can be said to enjoy political support if there are official documents or statements that identify it as a priority for the countries concerned or for the region as a whole. Such statements may include (but are not limited to) the listing of the project in official documents of the relevant Regional Economic Communities, such as the African Union, NEPAD (e.g. the Africa Action Plan, the Presidential Infrastructure Champion’s Initiative or the Program for Infrastructure Development in Africa) or equivalent organizations in the Middle East and North Africa, Asia, Latin America and Europe. Of particular importance is the emergence of a political champion in the affected countries, who is supporting the development of the project.

Transformation. An infrastructure project can be said to be transformational in nature if it has a major impact on people’s lives through enhanced sub-regional economic growth, to be achieved in an environmentally and socially responsible manner. There is interest in projects that can promote greater infrastructure access at manageable costs while minimizing environmental impacts. This is particularly the case for energy, as noted in the “Seoul Development Consensus for Shared Growth”. The economic impact may take a variety of forms, including reducing the cost of a key service, or improving its quality or availability. For example, a fiber optic connection to a submarine cable may dramatically reduce the cost of broadband services in a landlocked country, as well as increasing the availability of bandwidth. A road corridor project may reduce road user costs and transport delays. A power inter-connector may provide access to lower cost power from a neighboring market and substantially increase power availability. The numbers of people benefiting from the project can be gauged from looking at the economic area of influence of the project. For example, a project supplying low-cost power into a power pool could potentially benefit all electricity consumers connected to that power pool. Or again, a project

to improve the transportation conditions along a political corridor would benefit all populations that use that corridor as an artery for trade.

Maturity. Major infrastructure projects entail substantial preparatory work with long lead times. The maturity criterion captures how advanced a project is in the preparation process, and hence how close to financial closure and implementation. A mature project is one that has completed all the associated pre-feasibility and feasibility studies, and has identified a bankable financing structure. The number of months estimated as being necessary to reach this point provides core indicator of project maturity.

Institutional capacity. Given the complexity of implementing large infrastructure projects, the technical capacity of the implementing institutions is a key factor determining success. It is necessary to take a view of the capacity of the lead implementing institution. A country with good governance may nonetheless have an under-performing power utility (or more rarely vice versa). Governance indicators are sometimes available for individual institutions (for example from the Africa Infrastructure Country Diagnostic for many African utilities), or can otherwise be gauged by looking at fundamentals such as the political independence of the entity, its financial strength and the quality and quantity of its technical staff. The track record of the institution (and country) in successfully completing complex infrastructure projects is also an important indicator.

Private sector potential. In order to be attractive to potential private sector investors, an infrastructure project must meet basic criteria of creditworthiness. The project must generate an adequate and reliable flow of monetary revenues that can be ring-fenced by the investor, and risks must be carefully defined, allocated and as far as possible mitigated. The more capital intensive the infrastructure and the longer the associated cost recovery period, the higher the level of risk involved. The attractiveness of a project to the private sector will depend both on the fundamentals of the infrastructure, and on the details of the transaction design. Ingenious transaction design may be able to compensate to some degree for problematic fundamentals, but never entirely.

Annex 3. Building on Networks: A Proposal to Expand Capacity Building for PPPs through Practitioner Networks

PPPs can play an important role in addressing infrastructure and other basic service gaps. However a key constraint to their success is a lack of capacity in governments. Government officials lack the experience and skills to properly structure deals that will both bring in the private sector and protect taxpayers and consumers. Limited capacity also negatively impacts contract management and regulation. As a result pilot projects are often not scaled up into significant programs which meet policy objectives.

Practitioner networks as a core way to develop and sustain PPP capacities

Most efforts at capacity building have focused on the provision of consultants and training. These have had limited long-term impacts and have not often provided the practical support to actual problems faced by governments in developing PPP projects and programs. It has also not compensated for the need for governments to develop enduring capacities of their own.

Efforts to build PPP capacity and knowledge would be greatly strengthened by improving developing countries' access to networks of PPP professionals. The public sector is not typically good at sharing knowledge either within or across countries, and there is also relatively high staff turnover due to typical patterns of rotation, which means that human capital acquired in pilot PPP projects is often lost. A network of PPP peers provides opportunities for knowledge exchange and the transfer of experiences via practitioner-to-practitioner (P2P) exchange. It also provides an opportunity for these professionals to work together to develop common approaches, to harmonize frameworks and contracts in line with experience, which will reduce the costs to the private sector in entering national markets, and to achieve more efficient scale in capacity building and training activities. These networks can also serve as platforms for engaging the private sector and critical stakeholders such as politicians and civil society organizations.

An interesting model is the European Union PPP Expertise Center (EPEC) established in 2008 by the EIB, working in partnership with the European Commission and EU Member States.² EPEC was designed to serve as a focal point for building capacity and improving the design and delivery of PPPs across EU Member and Candidate States. It supports national and regional PPP units in a number of ways, including convening and managing working groups to address issues of common interest, peer reviewing country level practices and approaches, and developing guidance material. EPEC promotes the sharing of experience, expertise, and good practice across all aspects of the design, development, and delivery of PPP. It has been staffed in part by secondments from national PPP units, who work hand-in-hand with EIB experts.

² Further information about EPEC can be found at www.eib.org/epec.

Regionally-based networks, like EPEC and those being developed in Asia and the South African Development Community, also have the advantage that connecting practitioners with those from countries with similar economic and social conditions can also provide more inspiration and relevant lessons. As well as providing an opportunity for peer-to-peer knowledge exchange and the activities above, with sufficient resources these networks can provide a more proactive form of advisory support and peer review.

Current efforts to develop practitioner networks and P2P exchange

The MDBs, bilateral agencies, and governments have begun to develop regional practitioner networks. The Asian Development Bank, the World Bank Institute (WBI), and the Government of Korea, through the Korean Development Institute and the Ministry of Strategy and Finance, are collaborating on the development of a practitioner network for the Asia region. Activities include regular knowledge exchange and structured learning based on Asian PPP experiences and delivered by public sector PPP practitioners, for example from Korea and India, which have scaled-up their PPP programs.

Elsewhere WBI is collaborating with GIZ on the creation of a PPP network for SADC, with the collaboration of a regional financial institution, the Development Bank of Southern Africa (DBSA) and the South African National Treasury. Concurrently, EPEC is sharing its own experiences on the development of a practitioner network and resources center with SADC at the request of GIZ. EPEC is also in the process of expanding to EIB's Mediterranean Partner Countries.

Lastly, the MENA Policy Forum has been created as part of the Arab Financing Facility for Infrastructure (AFFI), with one of its aims being to promote improved policies for infrastructure PPPs.

Scaling up and consolidating practitioner networks and the role of the G20

Properly resourced practitioner networks will provide the “missing link” within current PPP capacity building efforts, giving PPP practitioners access to a pool of know-how that can be focused on the “how-to” of developing and implementing PPP programs.

The existing efforts to develop practitioner networks and peer-to-peer knowledge exchange would be greatly strengthened if additional resources were devoted to these and MDBs, bilateral and international organizations with an interest in the PPP agenda coordinated and consolidated their support on PPP capacity building. These efforts could be focused both on scaling up existing networks as well as developing ones in new regions where there is a critical mass of demand for capacity building. Specifically we would suggest:

- A coordinated effort by MDBs to develop and strengthen regional PPP practitioner networks which would include the allocation of technical assistance resources to these platforms
- That a strategy is developed for each of these over the next 12 months which would include a demand-based work plan as well as a resourcing strategy

This could provide both the resources needed for convening practitioners as well as putting in place coordination mechanisms, perhaps PPP experts seconded from well-established units, to provide peer support to countries developing their PPP programs.

The G20 can play a critical role

Many G20 countries have made significant progress in developing PPP programs and PPP capacities with lessons of relevance to developing countries. They can make a major contribution to PPP capacity- building by sharing the knowledge gained in implementing this. Specifically we would recommend that:

- G20 countries with strong PPP programs second individuals with experience of developing PPP programs within the public sector to form the nucleus of regional practitioner networks; this could be complemented by cost-sharing from other G20 countries
- G20 countries scale up their ability to share knowledge on the “how to” aspects of delivering PPP programs, including allowing their own public sector practitioners to devote time to assisting their peers in other countries and developing additional knowledge resources in collaboration with the MDBs

We estimate that the additional resources required to support practitioner networks would be around \$3 million per year. The resources required to develop and sustain these networks and scale-up this south-south knowledge exchange would therefore be relatively modest compared to example for the sums invested in project preparation work and consultancy studies on PPP frameworks.

Finally, the MDBs strongly support the proposal of the High Level Panel to develop an exchange program between investment banks and developing country staff of PPP units, to possibly be piloted in Africa.

Annex 4. “Sokoni”, Africa’s Infrastructure Marketplace

A Platform to Promote African Infrastructure Opportunities

Africa is currently experiencing a new wave of infrastructure development, with some \$40 billion in new infrastructure projects closed in 2009 alone. African governments and sponsors have continued to develop new projects to address the infrastructure demands of close to a billion people facing the largest infrastructure gaps in the world. The last five years have proven that these projects, financed both through public and private resources, can be successfully negotiated and implemented. In fact, the African Development Bank (AfDB) alone has financed more than 150 infrastructure projects in this period, including more than 30 transactions closed on commercial terms.

Current Market Challenges

Despite recent progress, the infrastructure sector presents many challenges. African infrastructure opportunities have no market exchange platform where capital providers (lenders, investors, donors, and developers) can easily engage with project sponsors, whether public or private. Furthermore, a standard presentation template for projects is lacking and information to assess the financial sustainability is generally difficult to obtain. Finally, setting-up investment-consortia involves an increased level of complex negotiations, in this highly fragmented market.

Similarly, African government agencies and project sponsors also face challenges in finding market partners for the development of their infrastructure projects. The preparation and suitable presentation of project-related information takes considerable time and effort. Moreover, reaching out to the market and exploring investor interest is resource intensive.

In summary, the current paradigm for African infrastructure is one of high market fragmentation, high information asymmetries, and high transaction costs. These characteristics generally impede the growth of the market and limit the potential for cross-border capital flows into this important sector.

Proposed Technology Solution

To overcome this situation, there is the need to significantly disrupt and improve the current paradigm. To do so, it is proposed to develop an internet-based platform to promote African infrastructure projects and make information available to potential investors and donors on a global scale. The platform would support public, private, and public-private partnership (PPP) projects; and would enable electronic connections between project sponsors, capital providers, and expert advisors worldwide.

The platform would incorporate proven features from established and recognized leaders in the online networking domain, including from social networking, real estate posting, secondary trading, multi-author content management systems, supply chain management and online dating.

Just as Michael Bloomberg made it possible to review information and access third-party ratings on financial markets on a global scale, the proposed platform would make it possible to easily access and share information about projects, seek business opportunities, find investment partners, and solicit third-party endorsements on proposed infrastructure projects, all through a single point of access. Business confidentiality would of course be preserved through individually secured identification and fully customizable privacy settings. Project promoters will be able to set the desired level of disclosure for access to specific items of information to specify if information will be available to all marketplace users or only to owner-endorsed requesters.

The Africa Infrastructure Marketplace would radically improve the availability, speed, and quality of information flows between market participants. It would significantly enhance the ease and speed at which financial resources find investment by promoting African infrastructure projects to the world.

How it Would Work

The Africa Infrastructure Marketplace would empower project sponsors and development officials to post infrastructure deal listings and to manage their own content. Furthermore, the marketplace would provide donor governments and potential financiers much wider visibility into the full range of project opportunities across Africa and empower them to quickly screen for those opportunities most closely aligned to their interests and strategies. To initially populate the Marketplace, institutional investors would be invited to upload their projects onto the platform, particularly members of the Infrastructure Consortium for Africa and the Africa Financing Partnership. These investors would typically invite their teams managing public pipeline, private pipeline, syndication opportunities, and portfolios of existing projects, with a sovereign guarantee or on commercial terms, to post their projects. Technical experts would then ensure basic quality control by reviewing projects submitted to the platform.

Synergies with the ICA will be sought with regard to providing data on infrastructure, knowledge products and establishing links with the ICA website where some regional projects are already being promoted.

The working name for the platform is Sokoni, a Swahili noun meaning “marketplace” or “trading center”.

To incubate the marketplace, before potentially making it self-sustained, an initial budget of USD 10 million is envisaged for the first three years: finalization of technical development and operations. The interest of voluntary contributors will be sought individually.

Annex 5. A Global Infrastructure Benchmarking Initiative

Rationale. Infrastructure spending needs in the developing world can approximately be estimated to be in the order of US\$1-1.5 trillion annually, while recorded spending amounts to about half that level. For such a massive economic sector, the striking absence of systematic, comprehensive and reliable worldwide information on even the most elementary data—on quantity and quality of infrastructure stocks, access to services, prices and costs, efficiency parameters, and historic spending – is quite remarkable. Without such information, it is very difficult to evaluate the success of past interventions, prioritize current allocations, and provide a benchmark to measure future progress.

Context. The recently completed Africa Infrastructure Country Diagnostic (AICD) that was commissioned by the Infrastructure Consortium for Africa (ICA), has shown the utility of having comprehensive standardized infrastructure data across a large group of countries, and also the feasibility of collecting such data even in a challenging environment. The AICD has also illustrated the impact of packaging these data in synthetic policy indicators and standardized analytic frameworks designed to address key infrastructure policy questions. The experience shows that infrastructure indicators can be particularly powerful when combined with data on public expenditure, and when mapped spatially to convey their geographic dimension.

The AICD data collection, originally conceived as a one-off stock-taking exercise coordinated by the World Bank to create a knowledge baseline, has now been taken over by the African Development Bank for its maintenance and periodic update as a longer term venture known as the Africa Infrastructure Knowledge Program. This transfer process, accompanied and supported by the ICA and its Members, has highlighted the importance of collaboration between statisticians and infrastructure specialists in order to ensure that expertise in data collection is married with detailed knowledge of the sectors.

Given the G20's interest in understanding and addressing the infrastructure challenges of Low Income Countries (LICs), there is interest in expanding this experience beyond Africa to provide a continuous *global* information base for the infrastructure sectors.

Objective. To launch an Infrastructure Benchmarking Initiative (IBI) that provides on-going data collection and associated analysis covering trends in infrastructure financing and performance with a globally consistent methodology that can yield meaningful benchmarks on infrastructure performance, and allow tracking of regional and national infrastructure trends over time.

Governance. The IBI would be implemented by a voluntary consortium of Multilateral Development Banks (MDBs), potentially in collaboration with the Organization for Economic Cooperation and Development (OECD). This consortium would work on a consensus basis, to ensure that the IBI is developed on a consistent methodological basis to allow for standardization of data in support of global benchmarking, while at the same time being flexible enough to reflect regional diversity of interests.

Each participating institution would nominate a representative to the coordinating body or IBI Secretariat. The Secretariat would hold quarterly meetings rotated among participating institutions,

with a view to overseeing the implementation of the program, and ensuring the quality and consistency of the data collection and adequate packaging and processing of policy indicators. Within each participating institution, the technical team responsible for implementing the project would be built on collaboration between the infrastructure and statistics departments of each institution, to ensure that both of these dimensions are adequately represented.

Roles. Within the Secretariat, the allocation of responsibilities would be as follows.

- The Regional Development Banks (RDBs) and the OECD would take responsibility for leading data collection, analysis, and dissemination for their respective geographic areas, ensuring that this is done according to the commonly agreed, globally consistent methodology for core indicators endorsed by the IBI Secretariat to ensure comparability across countries and over time on all agreed indicators. Data on a set of core indicators will be collected in all regions, while the collection of data on additional, optional indicators will be determined by RDBs in accordance with regional needs. Where regions overlap, a single lead institution would be identified. The table below provides an illustrative assignment of responsibilities.
- The World Bank (WB) would be responsible for developing and maintaining the globally consistent methodological tools needed to support meaningful worldwide infrastructure benchmarking. These tools would be developed in accordance with the consensus reached by all the MDBs through the IBI Secretariat. The tools would identify a module of core indicators that would be collected for all participating countries, and a number of optional indicator modules that the RDBs could draw-upon depending on the regional needs, interests, capacity, and resource constraints of each region. The WB would undertake to fill in for any RDB that could not undertake the responsibility for its regional data collection, and provide technical support as needed.

Table 1: Illustrative allocation of countries across institutions

Institution	Country Coverage
AfDB	Africa
AsDB	Central and West Asia, East Asia, Southeast Asia, South Asia, and the Pacific
EIB	Eastern Europe
IADB	Latin America and Caribbean
IsDB	Gulf States, Iran, Iraq, Lebanon, Palestine, Syria, Yemen
OECD	Western Europe, North America, Israel, Japan, Korea, Australasia

Scope. There are numerous options regarding the scope of the IBI, and the exact choice would be determined by the budget constraint and the views of the Secretariat.

- Regarding country scope, the focus of the G20 has been on LICs, and the IBI should at a minimum cover all of these. However, given the central focus on benchmarking, it would also be very helpful to include at least Middle Income Countries (MICs) and ideally also High Income

Countries (HICs), giving the project a truly global scope. In practice, the number of countries that can be covered will depend on budget constraints. The initiative could commence by means of a smaller group of pilot countries against which the methodology and the IBI Secretariat mechanism could be tested and honed.

- Regarding sectoral scope, the IBI should at least cover the major network infrastructures, namely: ICT; power (including generation, transmission and distribution); roads; railways; ports and airports; urban infrastructure; and water and sanitation. A number of other sectors could be considered for optional inclusion depending on the interests of specific regions: notably, irrigation and natural gas distribution. In some cases, there may be the interest to extend the approach to cover social infrastructure.
- Regarding thematic scope, the focus of the IBI should be primarily on data collection as opposed to estimates of investment needs. Two types of data would be collected. The first is data on infrastructure performance (available infrastructure capacity, access to services, prices and costs of services, efficiency and quality parameters, etc). The second is data on infrastructure spending from the public (central and local) government budget, public enterprises, special funds, and public private partnerships. The feasibility of collecting public spending data is likely to depend on budget constraints. As far as possible, data on infrastructure assets would be geo-referenced to support spatial analysis subject to capacity and financing resource availability. More normative exercises, such as the estimation of infrastructure needs, could be undertaken on a periodic basis as needed.

Methodology. To facilitate benchmarking, a standardized consensus-based methodology would be used for data collection, with the incorporation of optional modules that could be adopted at the discretion of the RDBs. A starting point would be the AIKP Statistical Handbook, which has been developed over a five year period and reflects the hands-on experience of data collection across Africa. The IBI Secretariat would need to review the AIKP Statistical Handbook and guide its adaptation to a global and multi-regional program.

Implementation. To mainstream the collection of infrastructure data on a sustainable long term basis, the best approach may be to work directly with National Statistical Agencies (NSAs) in each country so that they can lead the fieldwork and ensure country ownership of the exercise. The NSAs would work hand in hand with the primary data producers and facilitate linkages with regional and global specialized bodies (WSP, SSATP, etc). Ideally, infrastructure statistics would eventually need to be mainstreamed into each country's own national statistics plan. Adoption of an infrastructure statistics protocol by the United Nations would be an important stepping stone, and the IBI Secretariat would initiate a dialogue with the UN so as to promote the mainstreaming of infrastructure indicators in global statistical protocols.

Products. The knowledge base would be used to produce a quinquennial Flagship Report on the "The State of Global Infrastructure" led by the WB that would take stock of emerging trends and benchmark performance across regions and country groupings. Similar reports would be produced at the regional

level at the discretion of the RDBs, most likely on a bi-annual basis. The databases would feed into a global infrastructure data portal, jointly managed by the IBI Secretariat, which would bring together the data collected by each region into an integrated global database linking with data platforms in the various MDBs.

Budget. The implementation of the IBI is contingent on securing adequate funding for the work to be undertaken to an adequate quality. The cost of the project is of course highly sensitive to the scope in terms of country coverage as well as the frequency of the data collection effort, which is here assumed to be *biannual* but could of course be quinquennial, which would more than halve the costs. The cost of the project can be broken into start-up costs and recurring costs; with both start-up and recurrent costs being incurred in the first year.

Certain one-time activities would be needed in order to initiate the project, both at the centralized level by the WB and at the regional level by the RDBs. First, a central platform would have to be developed comprising the statistical handbook to guide data collection, a software tool to support smart data entry, automated data cleaning, and efficient data display, and a web portal and associated database for display and dissemination of the information. Second, a series of capacity building activities would be needed to get each of the RDBs up to speed with the project tools and methodology. Third, each RDB would then need to set-up capacity building activities to train and support the National Statistical Agencies of each participating country in the implementation of the project. On this basis, the start-up costs are estimated at US\$0.5 million at the WB and US\$1 million for each of the RDBs and the OECD.

Once the project is underway, there would be recurring costs for the WB and at each of the RDBs involved in data collection and analysis. The WB would incur on-going costs for central helpdesk, quality control and data consolidation functions as well as the production of the pent-annual State of Global Infrastructure Report. It is also envisaged that the WB would take central responsibility for the consolidation of data from global household and enterprise surveys related to infrastructure.

The RDBs would face recurring costs for data collection and analysis activities that (based on AICD experience) could be expected to range between US\$50,000-80,000 per country (highest for LICs and lowest for OECD countries). The management of these activities would call for a small oversight team (two to three people) at each participating institution.

On this basis, the total annual costs would be US\$1.0 million for central coordination plus US\$2.8-7.4 million for data collection and analysis depending on the number of participating countries. All numbers are preliminary and indicative.

Table 2: Preliminary budget overview

US\$m	World Bank	Regional Development Banks	Total
One-time start-up costs	0.5	1.0	1.5
Annual recurrent costs	0.5	2.8-7.4	3.3-7.9

Table 3: Preliminary breakdown of annual recurrent costs

Country scope	No. of countries	No. of institutions	Team size	Total cost (US\$m pa)
LICs only	40	6	2	2.8
LICs plus MICs	139	6	3	6.3
Global	212	7	3	7.4

Next steps. The critical steps for the implementation of this initiative are as follows.

- G20 to provide the political mandate for IBI to go ahead
- Following G20 endorsement, the formation of the IBI Secretariat to be put on the agenda of the next meeting of the Heads of the MDBs
- A financing plan to be developed indicating what could be achieved based on internal resources and what would remain contingent on additional funding.
- MDBs to nominate representatives to a provisional IBI Secretariat, which can meet to develop a more extensive Concept Note and to review the AIKP Statistical Handbook.

Annex 6. The Construction Sector Transparency Initiative (CoST): Launching the CoST Global Program

The 'next steps' required to launch the CoST Global Program fall within three themes: (1) Deepening and expanding country operations; (2) Broadening CoST's donor-base; (3) Implementing an appropriate international governance structure.

Deepening and Expanding Country Operations

'Deepening' implementation entails that existing national multi-stakeholder groups (MSG): (1) select new projects within participating procuring entities (PEs); (2) approach additional PEs to participate in CoST. The MSGs that participated in the CoST Pilot Phase remain active, and can renew operations once financial resources are made available to them in October/November 2011. MSG operations include:

- a. **Disclosure:** a template is provided to participating PEs to complete that contains a list of specific project data that should be proactively disclosed and a secondary list of information that must be available on request (reactive disclosure).
- b. **Assurance:** Upon disclosure, the MSG will hire an independent team to analyze the project data for accuracy, completeness and robustness (i.e. are contractual amendments, changes in cost and delivery justified).

'Expansion' entails the inclusion of new countries that commit to the requirements of a CoST implementing country. Upon the receipt of a formal expression of interest the CoST International Secretariat consults with prospective countries. Discussions are currently ongoing in South Africa, while the World Bank and DFID Country Offices are exploring whether India, Kyrgyz Republic, Nigeria, Uganda and El Salvador are interested.

Broadening CoST's donor-base

Expanding CoST into a global program will require a significant increase in the level of funding available to the initiative. Currently, CoST has only secured the financial support of the World Bank for the Global Program. The World Bank is providing \$1.5 million over three years (\$500K per year) through the Development Grant Facility (DGF). As venture capital, these funds will provide the capital necessary to constitute the organizational structure of the Global Program, continue resource mobilization activities and safeguard the progress made within current implementing countries. Additional financing is required to adequately finance expanded operations in existing countries and operations in new countries.

'Next steps' include developing or incorporating CoST into a Multi-Donor Trust Fund (MDTF) during 2012 and engaging in resource mobilization and knowledge-sharing with donors.

Implementing an appropriate international governance structure

The 'next steps' required to implement a governance structure for the Global Program are largely internal to CoST and involve a number of consultations with existing stakeholders. An Interim Board (IB) has been elected to steer CoST through to the launch of the Global Program in 2012. The IB will focus on analyzing and approving the operational model and governance structure proposed in an Operating Manual that has been prepared over the course of summer 2011. The IB will give way to a new Executive Body at the inception of the Global Program, which will be marked by a global conference to elect representatives onto this Body.

Value of G20 political and/or financial intervention

CoST has thus far been driven by participating countries. DFID and the Bank were involved but adopted a 'light touch' and relied on CoST's International Advisory Group to take decisions and determine policy. The fact that all 8 pilot countries are committed to continuing their national CoST programs and that a number of additional countries that have expressed interest in joining CoST, demonstrates strong demand and recognition of the benefits of improved transparency and accountability in national construction sectors. G20 endorsement would constitute the world's most powerful economies recognizing the value of the initiative and would be interpreted as a 'green light' by the bilateral and multilateral donors needed to support the global program.

The ideal annual budget the first 5 years of the CoST Global Program is \$6 million. Interested G20 members could help provide sufficient funds to expand CoST to 25 new countries.

