Working Group 1 Sustainable Infrastructure: Executive Summary Vol. I

Quality infrastructure ensures the delivery of goods and services that promote economic growth and contribute to quality of life, including social well-being, health and safety, and the sustainable conservation of the environment. However, infrastructure stocks and service access are relatively low in the developing world. Rapid per capita income increases in many emerging countries will amplify the scale and pace of infrastructure demand. Countries like China, India and Brazil will need to allocate billions of dollars to infrastructure development to support their booming economies and populations. The OECD predicts that infrastructure investment needs across land transport, telecommunications, electricity and water and sanitation sectors could amount to an estimated USD 53 trillion through 2030. The annual investment requirement would equal more than 2.5% of world GDP (2006).

Current public spending on infrastructure remains well below even conservative demand estimates. Unless governments drastically shift their fiscal budget priorities or increase taxation a large infrastructure funding gap will continue to exist. Public budgetary limitations and tight bank lending conditions require greater recourse to foreign and private sector capital to support infrastructure investment at the scale necessary for sound development. Private sector participation can inject muchneeded investment capital, provide the technological expertise and managerial competence to improve operational performance of publicly run utilities, and the end-user benefits of a more competitive market.

Developing countries' ability to finance a larger portion of their infrastructure development needs from domestic sources would give them more control over long-term sectoral planning and asset management. However, financing infrastructure projects through domestic savings presents a serious challenge in many developing countries, where bank penetration remains low. At the same time, the 2007 global financial crisis will continue to restrain the amount of foreign capital available for infrastructure projects for the foreseeable future, further heightening competition for resources. Notwithstanding, in light of the financial uncertainty and relatively moderate growth potential of many developed countries, emerging countries have an opportunity to position themselves as attractive, higher-yielding investment destinations.

The Role of Development Banks

Following the 2007 global economic crisis, more traditional financing sources—such as public expenditure and private bank lending—have had even fewer resources available to devote to infrastructure development. Even if domestic banks and other financial intermediation vehicles were able to fill the gap, development banks play a uniquely "additional" role as financial catalysts, drawing private capital into large, long-term projects in countries and sectors where significant development results are likely, but the market perceives high risk. These institutions often offer below-market interest rates, longer terms and repayment schedules that can more easily be adjusted. They can also offer risk mitigation through political or partial risk insurance or guarantees that attract a wide variety of market players, and provide local funding partners with an improved level of creditor status. Development banks can also provide project selection and design additionality, offering a range of aid enhancement instruments, including technical assistance and other tools for capacity building that promote the transparent use of resources, accountability, cost-effective delivery and long-term project sustainability.

IDFC members support infrastructure development through a wide range of funding facilities and services. In the transport and water and sanitation sectors, they finance projects ranging from transnational expressways and rapid urban transit to water kiosks and sewage treatment networks. Through their experience as financiers, advisors, partners and resource mobilizers, IDFC members have identified an array of investment barriers throughout the developing world, and are in a unique position to help address and manage them.

To begin with, public ministries in many developing countries do not provide high quality, long-term transport planning, investment programming or adequate maintenance. Where institutionalized norms and regulations exist, many exhibit weak compliance supervision. IDFC members stress the importance of decentralized transport management, local autonomy over financing, and the inclusion of end-users and customers in the decisions making process particularly in the case of urban transport. Unspecified end-user models, complex and costly legal and administrative requirements and burdensome tax regimes also dilute the transport sector´s attractiveness in many emerging countries. Private investments in

transport projects are typically constrained by high upfront capital costs, relatively lowreturns and long investment timelines. Public subsidies are often required to make investments in public transportation profitable.

With the ever-increasing pressure on water quantity and quality, integrated water resource management and effective policy and regulatory frameworks are essential to ensuring the appropriate and efficient allocation of resources to domestic agriculture, energy and industry use, as well as the incorporation of proper conservation policies. Yet, the responsibilities between water and environmental ministries and other regulatory authorities in many developing countries are not well defined. Furthermore, these ministries and regulatory bodies often lack qualified staff and require lengthy and complex administrative procedures. Many developing countries also lack the technical competence of well-trained and experienced engineers and technicians to maintain water and sanitation infrastructure. Nevertheless, low financial return is one of the greatest impediments to private interest in the water sector in many developing countries. Tariff levels are often highly politicized and set insufficiently low to create incentives for private investors.

A realistic infrastructure development strategy should include a clear financing distribution among tariffs, taxes and grant-based transfers. Moreover, as both the transport and water and sanitation sectors are highly interconnected to the health, energy and agriculture sectors, developing countries need to establish effective and integrated policy frameworks and regulatory environments, and a clearly defined division of responsibilities and resources among stakeholders. Particularly in the transport sector, many IDFC members noted the importance of allowing municipal governments to access credit and streamlining procedures and coordination among public authorities. The water sector would also benefit from improved commercial management, improvements to billing and collection and user awareness about non-payment and irrational water use.

IDFC can further support the transport and water and sanitation sectors by mobilizing grant and technical assistance for policy development, capacity training and the promotion of best-practices, market research and the design of appropriate payment and financing schemes. As they are aptly suited to absorb more risk than the private sector, IDFC members can also provide more competitive local currency debt financing and back more innovative development approaches and tools, such as PPP policy framework reform and frontier project finance models. IDFC members can also look to prioritize comprehensive programs, rather than project approaches, to help attract a wide spectrum of coordinated donors.