



DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)



DC2003-0015
September 13, 2003

**IMPLEMENTING THE WORLD BANK GROUP
INFRASTRUCTURE ACTION PLAN
(with special emphasis on follow-up on the recommendations of the
World Panel on Financing Water Infrastructure)**

Attached for the September 22, 2003, Development Committee meeting is a paper entitled "Implementing the World Bank Group Infrastructure Action Plan (with special emphasis on follow-up to the recommendations of the World Panel on financing water infrastructure)" prepared by the staff of the World Bank. This item will be considered under Item IV(c) of the Provisional Agenda. Ministers are requested to comment on this subject in their prepared statements.

* * *

Implementing the World Bank Group Infrastructure Action Plan

(with special emphasis on follow-up to the recommendations of the World Panel
on Financing Water Infrastructure)

September 12th 2003

Implementing the World Bank Group Infrastructure Action Plan

(with special emphasis on follow-up to the recommendations of the
World Panel on Financing Water Infrastructure)

Table of Contents

Executive Summary	1
I. Introduction	3
II. Infrastructure Services: The Global Challenge	3
A. Infrastructure's Links to Poverty Reduction and the MDGs	3
B. Infrastructure Needs in Developing Countries.....	4
III. The Water Challenge: The World Panel on Financing Water Infrastructure.....	4
IV. Bank Group Infrastructure Business	6
A. 1990-2002: Strategic Shift and Changing Environment.....	6
B. Going Forward: Scaling-Up Infrastructure Service Delivery	7
V. An Action Plan to Revitalize the Bank Group Infrastructure Business	9
A. Responding to Client Country Demand for Infrastructure.....	9
B. Rebuilding Sectoral Knowledge Base.....	12
C. Maximizing Leverage via New and Existing Instruments.....	13
D. Implementation Issues.....	15
Annexes	
Annex I: Matrix of Management Actions.....	17
Annex II: Camdessus Panel Recommendations Relevant to the Bank Group.....	21
Boxes	
Box 1: Bank Group Follow-up on Camdessus Recommendations on Water Resources	5
Box 2: IBRD/IDA Infrastructure Investment Lending	6
Box 3: Evolving Bank Group Business Model.....	7
Box 4: Facilitating Engagement Across the Public-Private Spectrum in WSS.....	9
Box 5: High Risk/High-Reward Projects.....	15

Executive Summary

This paper informs the Development Committee on the Bank Group's Infrastructure Action Plan, recently discussed by the Board of Executive Directors, and reports on the follow-up to the recommendations of the World Panel on Financing Water Infrastructure, as requested in the Communiqué of the Development Committee in Spring 2003.

The Infrastructure Action Plan was developed in response to client demand to revitalize the Bank Group's infrastructure business. The Action Plan signals Management's and the Board's commitment to infrastructure and the recognition that intensified engagement in infrastructure -- in the context of a multi-sectoral/CDF approach to reach the MDGs -- is essential to begin to address the vast unmet needs for infrastructure service delivery. The Infrastructure Action Plan will guide the Bank Group's infrastructure business for the next 2-3 years, and includes a particular emphasis on building the Bank Group's infrastructure business by investing further in the pipeline and country diagnostic work. An integral part of the Infrastructure Action Plan is the follow up on the recommendations of the World Panel on Financing Water Infrastructure directed to the Bank Group.

Infrastructure Action Plan

The Infrastructure Action Plan emphasizes a business model ensuring efficient, affordable, and sustainable delivery of infrastructure services by leveraging funds from the entire spectrum of public and private sources, supported by IBRD, IDA, IFC, and MIGA products. It focuses on three key areas:

- *Responding to country demand* by offering a broad menu of options for public and private sector infrastructure provision, developing new infrastructure business by investing in our project pipeline, and better integrating infrastructure into Country Assistance Strategies (CASs) and Poverty Reduction Strategy Papers (PRSPs).
- *Rebuilding sector knowledge bases* by improving and expanding regional/anchor infrastructure diagnostic work, better linking infrastructure diagnostic work to other Bank diagnostics, increasing impact of analytical work done by Global Programs, and developing infrastructure sector databases to improve results measurement.
- *Maximizing leverage via new and existing instruments* by creating new lines of business and instruments to meet emerging client demands, especially at the sub-sovereign and regional/multi-country levels, expanding the use of risk mitigation instruments (including foreign exchange rate risk), and facilitating and promoting the joint use of Bank Group instruments.

Follow-up to the Recommendations of the World Panel on Financing Water Infrastructure

The Bank Group's follow-up includes six major thrusts:

- *Facilitating engagement across the public-private spectrum* by (a) developing a guidance note to clarify the roles of the public and private sectors, (b) expanding the use of Output

Based Aid (OBA), (c) stepping up analytical work on management models, and (d) focusing on reducing barriers to entry of operators into the water supply and sanitation sector.

- *Developing a larger water supply and sanitation project pipeline* by focusing on countries where potential for impact is highest, developing WSS lending opportunities developed with special emphasis on sanitation and multi-sectoral operations, and -- with partners -- developing an advisory partnership for the development of urban infrastructure projects (DevCo).
- *Strengthening donor coordination* by sharing knowledge, leveraging resources, building consensus, and supporting common programmatic approaches.
- *Improving sector knowledge* by increasing work on (a) country assessments and plans, (b) monitoring and evaluation, (c) advisory and analytical work, and (d) knowledge sharing and capacity building.
- *Increasing the Bank Group's role in financing sub-sovereign entities* by gaining market knowledge on investing in municipalities through the creation of the Municipal Fund, developing with other donors an investment vehicle to guarantee local bond issues (GuarantCo), and issuing best practice guidelines for lending to sub-sovereign entities.
- *Increasing the deployment of risk mitigation instruments* by enhancing the use of existing instruments, developing new instruments, as well as identifying and removing policy constraints to their deployment.

I. Introduction

1. The purpose of this paper is to inform the Development Committee of the Bank Group's Infrastructure Action Plan, discussed by the Board of Executive Directors in July 2003, and to report to the Development Committee on the follow-up to the recommendations of the World Panel on Financing Water Infrastructure chaired by Michel Camdessus (referred to as the Camdessus Panel hereafter), as requested in the Spring 2003 Communiqué¹.

2. The Infrastructure Action Plan was developed in response to client demand to revitalize the Bank Group's infrastructure business. The Action Plan signals Management's and the Board's commitment to infrastructure and the recognition that intensified engagement in infrastructure is essential to begin to address the vast unmet needs for infrastructure service delivery, which is key to reaching the Millennium Development Goals (MDGs). Management and Board commitment to revitalize this business has been spurred by recent developments, including the Bank Group's declining infrastructure investment lending (notably in IBRD countries) and the recent declines in private investment in infrastructure sectors.

3. An integral part of the Infrastructure Action Plan is the Bank Group's follow-up actions to the recommendations of the Camdessus Panel. These follow-up actions build on the World Bank's *Water Resources Sector Strategy Paper*², and the *Background Paper to the Development Committee on Water Supply and Sanitation*³.

II. Infrastructure Services: The Global Challenge

A. Infrastructure's Links to Poverty Reduction and the MDGs

4. The need for infrastructure service provision to reduce poverty and increase economic growth has received considerable recognition in various contexts, such as the MDGs, the UN conference on Financing Development in Monterrey, NEPAD, the WSSD, and the Camdessus Panel. The Bank Group's clients underscore this message: the recent "Global Poll" undertaken by the World Bank⁴ shows that opinion makers in developing countries perceive the lack of infrastructure as a major factor constraining growth and poverty reduction.

5. In the context of a multi-sectoral/CDF approach to reach the MDGs, infrastructure service delivery plays a critical role both for supporting economic growth as well as improving social service delivery. There are two basic linkages: first, the availability, efficiency and reliability of infrastructure service provision has a major impact on the investment climate and growth. For example, surveys conducted in South Asia and Sub-Saharan Africa indicate that the lack of adequate infrastructure is one of the four largest problems faced by private firms, and

¹ The Communiqué stated: to "consider, before our next meeting, how it can implement relevant recommendations of the Panel Report".

² Endorsed by the Board of Executive Directors in February 2003.

³ Presented at the 2003 Spring Meetings of the Board of Governors.

⁴ The Global Poll, a Multinational Survey of Opinion Leaders 2003, prepared by Princeton Survey Research Associates for the World Bank, May 2003.

therefore constitutes a major impediment to growth. Second, the poor rank access to infrastructure as one of the most important basic needs and a critical input into moving out of poverty. For example, *Voices of the Poor* found that better roads, transportation, communications, energy, and water supply and sanitation services were viewed by the poor to be almost as important as health and education services.

6. Infrastructure services can increase the general welfare of poor households through reductions in the opportunity costs (both time and money) associated with finding imperfect alternatives to meet essential needs. Reliable, affordable and cost-effective provision of infrastructure services can help achieve the health and education MDGs directly by improving health and education outcomes, reducing levels of child mortality from water borne diseases, respiratory illnesses, and allowing easier access to schools and clinics, and more indirectly by reducing the fiscal burden of governments to create space for other expenditures (e.g. health and education). The issue of fiscal space is especially critical today as many client countries face serious fiscal constraints.

B. Infrastructure Needs in Developing Countries

7. Yet there are tremendous unmet needs for infrastructure investment and for improvements in service delivery in developing countries. A recent study on infrastructure demand estimates that the annual investment and maintenance needs in infrastructure for developing countries over the period 2005-2010 could amount to – at a minimum – \$465 billion per annum or on average 5.5% of each country's GDP, and up to 6.9% of the GDP of the poorest countries. New investment needs are estimated to be approximately \$233 billion per year while maintenance needs could be on the order of an additional \$232 billion per year⁵.

8. Traditionally, most investment in infrastructure has been publicly funded. According to a study by DFID, 70% of current total infrastructure spending is still financed by governments or public utilities' own resources. The private sector contributes roughly 20%-25% while official development assistance (ODA) finances only around 5%-10%⁶. Private sector participation in infrastructure, however, has been volatile and heavily concentrated in a few sectors. It increased sharply during the 1990s only to rapidly decline after 1997, returning – and remaining ever since – to levels similar to those in 1994. In contrast, commitments for infrastructure of Multilateral Development Banks (MDBs) have remained relatively stable since 1995, with combined annual average commitments of \$16.5 billion⁷, corresponding to about 43% of total MDB commitments.

III. The Water Challenge: The World Panel on Financing Water Infrastructure

9. The dimension of the challenge to improve infrastructure services outlined above appears particularly daunting in the water supply and sanitation (WSS) sector. Investment must double

⁵ World Bank Policy Research Working Paper 3102, July 2003.

⁶ DFID, Making Connections: Infrastructure for Poverty Reduction, January 2002.

⁷ From the Annual Reports of the individual Multilateral Development Banks.

from the current \$15 billion to \$30 billion annually to achieve the MDGs. In addition, the sector – in many countries – lacks sound policies and effective institutions.

10. The World Panel on Financing Water Infrastructure chaired by Michel Camdessus released its report “Financing Water for All” in March 2003. The report focuses on how to bridge the investment gap in the water sector, which it estimates as an increase from \$75 billion to \$180 billion a year for all water-related sub-sectors. This figure includes not only WSS, but also irrigation, hydropower, and water resources. It puts forward 87 recommendations, aimed at increasing investment and improving governance to allow for efficient and sustainable management of assets.

11. The Bank Group endorses the overall message of the Report of the World Panel on Financing Water Infrastructure and agrees with its general tenets and conclusions⁸. The Bank Group has flagged four areas:

- The Camdessus Panel Report focuses mainly on water supply and sanitation. More work is needed on other water-related infrastructure (i.e. for irrigation, flood protection, storage), which calls for distinct approaches and financing solutions.
- The Report is overly optimistic on the prospects of attracting quantum increases in private sector financing, given the current economic climate. To date, private financing in WSS has accounted less than 10% of total investment, and public financing will remain the most important source of financing. The various risk mitigation instruments proposed in the Report can help accelerate private investment flows, but only gradually.
- The use of instruments and facilities should be aligned to country priorities. Several recommendations in the Report implicitly or explicitly propose earmarking aid for the water sector, which can distort national decision-making processes.
- Existing monitoring systems should be reinforced, rather than setting up new systems, such as the proposed global “control tower”.

Box 1 - Bank Group Follow up on Camdessus Recommendations on Water Resources

The Camdessus Panel Report’s major recommendations on water resources endorse the new Water Resources Sector Strategy, which aims to make the Bank a more effective partner in assisting developing countries to develop and manage water resources. Firstly, the Camdessus Panel Report underscores the need to operate in all aspects of the water sector (water resources/service delivery and broad/poverty targeted interventions). Secondly, it calls on the international community to resume lending to essential high-risk/high-reward surface and underground water storage projects, subject to adequate social and environmental safeguards.

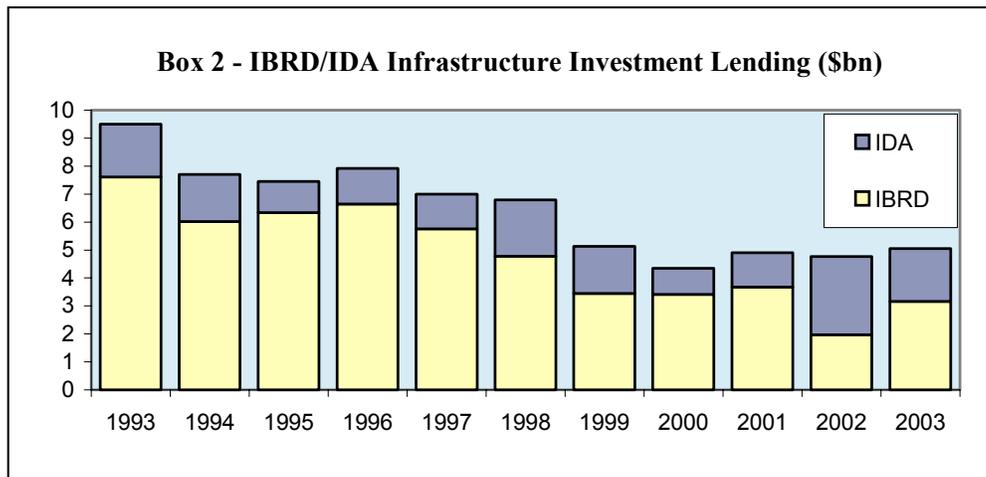
12. Reflecting the focus of the Camdessus Panel Report, the water sections of this paper concentrate on water supply and sanitation only (see Box 1 for Bank Group follow up on recommendations on the broader issues related to water resources management and development). The Bank Group follow-up responds to those 32 recommendations that are directed to (a) the Bank Group, (b) all multi-lateral financial institutions, or (c) the donor community at large. The Bank Group will also support client countries, sub-sovereign entities, and others to pursue the recommendations directed at them. The follow-up is an integral part of the Infrastructure Action Plan. For reference, a matrix of Bank Group follow-up action and their links to the Camdessus recommendations is attached in Annex 2.

⁸ For more details see Bank Group response sent to Mr. Camdessus in May 2003, circulated to the Bank’s Board of Executive Directors on July 14, 2003.

IV. Bank Group Infrastructure Business

A. 1990-2002: Strategic Shift and Changing Environment

13. The Bank Group will need to revitalize its infrastructure business to address these unmet needs, particularly in light of the following realities. During the 1990s, the Bank Group's infrastructure business shifted from focusing on "bricks & mortar" investments to a model of infrastructure service delivery. This led to a strategy of complementing investments with policy and regulatory reforms and institutional capacity building. This shift reflected a growing consensus that the right policy environment and institutional capacity are crucial for ensuring sustainable infrastructure investments, whether they are public or private. During the same period, private sector interest in infrastructure investments in developing countries increased, leading the Bank to focus on leveraging private flows. As a result, World Bank infrastructure investment lending, primarily that in IBRD countries, declined by about 50% between 1993 and 2003 (see Box 2), while other Bank Group activities in infrastructure increased over the same period: infrastructure components in adjustment loans were up 104%, IFC investments rose by 88%, and the number of MIGA guarantees increased by a factor of 30, with concurrent increases in its analytical and advisory services (AAA). IDA investments in infrastructure have been relatively stable over this time period.

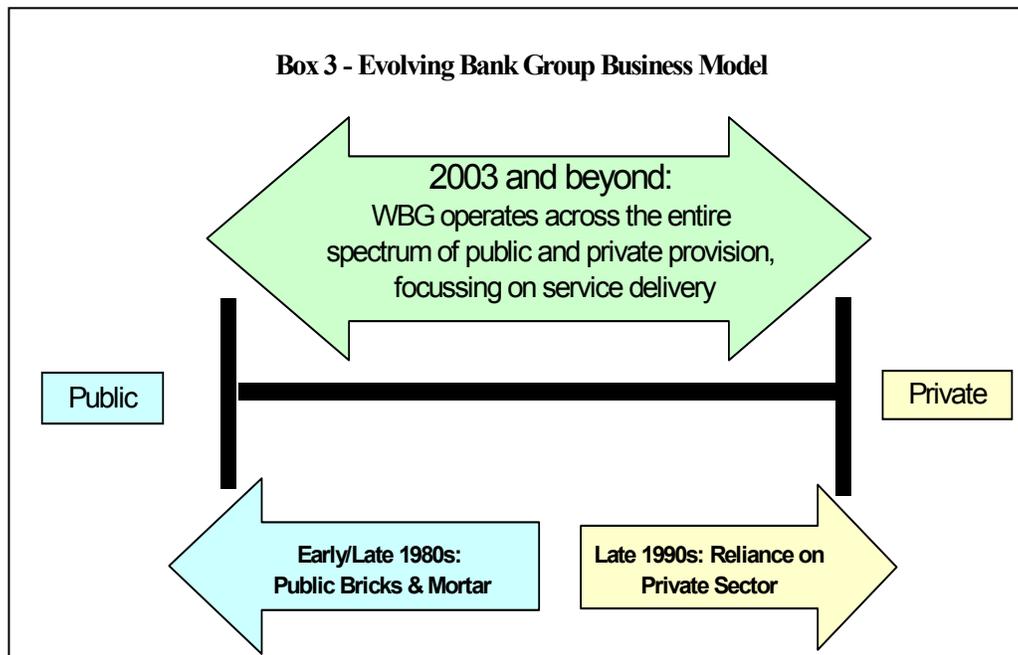


14. Despite the Bank's shift in focus to infrastructure service delivery, the decline in Bank lending cannot be attributed to a change in strategy alone. The decline was exacerbated by other Bank Group internal factors, such as a lack of clarity on the roles of the private and public sector in infrastructure service provision and under-investment in quality country-level infrastructure diagnostic work. High preparation costs, risk aversion among staff, corporate signals on infrastructure, and a move towards programmatic lending all contributed to a reluctance to take on infrastructure projects. These and other factors have led to reduced Bank activity in infrastructure, and as a result, a decline of about 10% in the Bank administrative budget allocated to regional infrastructure departments over the last three years.

B. Going Forward: Scaling-Up Infrastructure Service Delivery

15. Going forward, external developments will significantly influence the Bank Group's infrastructure business. Most notably, private investment in infrastructure in developing countries has declined dramatically; annual investment commitments for infrastructure investment projects with private participation declined over 50% between 1997 and 2003. Responding to this change requires further evolution of the Bank Group's infrastructure business.

16. The overarching premise of the Bank Group's business model will be to ensure efficient, affordable, and sustainable delivery of infrastructure services by leveraging funds from the entire spectrum of public and private sources, supported by IBRD, IDA, IFC, and MIGA products (see Box 3). The business model will draw heavily on lessons learned from the past, particularly in areas such as the pace and sequencing of sector reform, private sector participation, regulatory design and other areas of governance, cost recovery and subsidies, and proper planning for operation and maintenance costs. The Bank Group will continue its model of encouraging private sector participation as a means to increase the efficiency and performance of infrastructure service providers; financing inefficient public utilities without a clear reform agenda will remain part of the past. However, reliance on the private sector alone will not be sufficient to guarantee a scaling-up of infrastructure service provision and reaching the poor.



17. Therefore, in the context of providing policy advice on sector reforms, the Bank in some cases will continue to lend to well performing public utilities, including to subsidize connections and consumer charges for poor households. Cost recovery -- via tariff increases and greater reliance on targeted subsidies (when necessary) -- remains a goal. However, there will be greater flexibility in determining the period of time over which tariff increases are imposed. In cases where private sector participation is a key component of Bank Group activity, there will be more focus on the institutional design of the private participation in infrastructure arrangement and capacity-building, both for the private service provider and regulatory agencies. In all cases, the Bank Group will continue to emphasize the multi-sectoral contributions that infrastructure

services provide, whether directly, as in the case of water supply and sanitation, or indirectly, in the case of water resources, irrigation, energy, transport, and telecommunications, to the MDGs. The Bank Group will also continue to ensure that infrastructure investments are environmentally and socially responsible and sustainable. While remaining fully committed to safeguard policies, steps will be taken to make internal processes and procedures as efficient as possible. To fully support development effectiveness, the Bank's intention is to avoid the use of a mechanistic approach to determining project classification and safeguard requirements. Instead, investments will be reviewed in a more pro-active and customized manner to address safeguards in a way fully appropriate for the specific environmental and social issues related to the project in question.

18. This evolving Bank Group business model will impact the various infrastructure sectors in different ways. For example, in light of continued private sector involvement in the telecommunications sector, the Bank will maintain its focus on policy advice and institution building, complemented by IFC transactions and MIGA guarantees, but will also provide support where private investors do face greater obstacles, such as in rural areas, post conflict situations and regional projects. In contrast, in the water supply and sanitation sector -- where private finance has accounted for less than 10% of total investment -- the Bank will need to more strongly promote sustainable public sector investment and service delivery, including sustainable subsidies for private provision, as well as more innovative models of public-private partnerships.

19. These changes will impact different regions and client segments differently. In IDA countries, although private financing for infrastructure has been increasing, its relative share of all infrastructure financing remains low. Consequently, the Bank Group will remain an important source of financing for public sector investments. In middle-income countries, which have received private financing to a varying degree, the Bank Group's role will focus on promoting an optimal mix of public-private financing especially focusing on decentralized delivery by states, provinces, and municipalities. As upper middle-income countries have received the bulk of private investment in the 1990s, the Bank Group's share of infrastructure finance is expected to remain limited in this client group despite a recent decline in private sector investment, and the Bank Group will continue to focus on leveraging private finance. Overall, in spite of the projected increased Bank Group engagement in infrastructure, there is strong recognition that the Bank Group will not be able to fill infrastructure investment gaps on its own, and that all of the Bank Group's instruments need to be used effectively to leverage total infrastructure financing from a variety of sources, e.g. Regional Development Banks, foreign commercial banks, local capital markets, etc.

20. In line with its evolving business model for infrastructure, the Bank Group offers support to efficient and financially viable WSS service providers along the entire spectrum of public and private involvement, while continuing to emphasize sustainability as an essential criterion for financial support. Specific measures to follow up on the Camdessus Panel recommendations⁹ being undertaken by the Bank Group are noted in Box 4.

⁹ See Annex 2 for corresponding Camdessus recommendations.

Box 4 – Facilitating Engagement Across the Public-Private Spectrum in WSS

- **Guidance note** ~ the Bank is developing a guidance note for staff and clients to clarify the roles of the public and private sectors in the provision of WSS services.
- **Output-based aid** ~ The Bank Group is expanding the use of OBA as a way of combining public and private finance to expand the provision of water supply and sanitation services. Output-based aid links the payment of subsidies to the outputs or results actually delivered to provide a sharper focus on intended objectives, to improve incentives for efficiency and innovation, to enhance accountability in the use of public resources, and to create opportunities for mobilizing private financing. OBA schemes are in various stages of design and implementation in Cambodia, Paraguay, the Philippines, Bangladesh and the Dominican Republic. The Global Partnership on Output Based Aid (GPOBA) will support the development of OBA schemes in the sector.
- **Analytical work on management models** ~ Work includes an update of the World Bank Toolkit on Private Sector Participation and a study on successful public utility models.
- **Attract new entrants** ~ Bank Group operations increasingly focus on reducing barriers to entry of operators into the WSS sector, by reassessing key contract provisions, and using transaction types that carry less risk – such as outsourcing, management and lease type contracts. The Bank Group is increasing partnering with the local private sector, especially in smaller population centers.

V. An Action Plan to Revitalize the Bank Group Infrastructure Business

21. The Infrastructure Action Plan has been developed to increase the Bank Group's contribution to improving infrastructure service delivery. This Action Plan is a comprehensive management approach which will guide the Bank Group's infrastructure business for the next 2-3 years. The Action Plan includes a particular emphasis on building the Bank Group's infrastructure business by allocating more resources to strengthening the Bank Group's pipeline of loans and other financial instruments, as well as country diagnostic work. This increase in resources is necessary due to the fact that current CASs were developed under different circumstances, when there was an expectation of higher levels of private sector involvement in infrastructure and internal questioning of the role of infrastructure in poverty reduction.

22. The aim of the Infrastructure Action Plan is to rebalance the Bank Group's business so as to re-position infrastructure as a key contributor to achieving the MDGs. Within this context, the Infrastructure Action Plan will focus in particular on the following three key areas: responding to country demand; rebuilding sector knowledge bases; and maximizing leverage via new and existing instruments.

A. Responding to Client Country Demand for Infrastructure

23. In light of increased demand from client countries, the Action Plan includes a number of concrete measures designed to increase lending and AAA deliverables. A number of country-specific lending opportunities are being developed in FY04 for Board consideration in FY05/06.

Every effort will be made to respond to clients as quickly as possible, although it should be recognized that infrastructure project preparation in the Bank takes on average 20 months. In order to facilitate the development of these and other projects, sector specific guidance notes are being written to clarify the opportunities for Bank Group engagement in infrastructure with respect to the roles of the public and private sectors in the provision of infrastructure services. In order to sustain the expected increase in business deliverables, the Infrastructure Network is intensifying its engagement with country teams and Country Directors to increase the infrastructure presence in CASs, PRSPs, programmatic loans, and adjustment loans. Improved AAA work will also highlight the contributions of infrastructure to poverty reduction and growth.

24. The Bank Group will also need to work intensively with other multi-lateral and bi-lateral institutions to jointly leverage public and private financing for these sectors. At the Bank's invitation, twelve of the major international financial institutions were represented at a meeting in Washington to discuss their plans to scale-up infrastructure service delivery. The meeting provided a forum for the Bank Group to share its Infrastructure Action Plan and for other institutions to learn about each others' strategies. This meeting represented the first time that such a group was convened. There was agreement that a collective effort needs to be made to share information, and there was significant interest in undertaking joint diagnostic work: two such studies are being planned (one each in East Asia and Latin America). There was also recognition of the need to explore opportunities to provide support to NEPAD for infrastructure activities. The institutions agreed to take a pragmatic approach to joint financing, focusing on larger projects and working together to expand the universe of lending opportunities. Similar meetings will be hosted by the Bank for bi-laterals and NGOs during the Annual Meetings. This will complement ongoing consultations with the private sector at the sectoral level.

25. The Camdessus Report's call on donors to increase commitments to the water sector echoes the increased client country demand for Bank Group engagement in water projects, recognizing the key role of water supply and sanitation in achieving the MDGs and the decline of the WSS portfolio in recent years. The Bank Group has publicly declared involvement in water supply and sanitation one of its top priorities. The immediate challenge for the Bank Group is to increase its pipeline of WSS projects and increase its impact through strengthened donor coordination.

26. The Bank Group will invest in developing a larger WSS project pipeline¹⁰ to better respond to client country demand, emphasizing five thrusts:

- *Selectivity*: The Bank will scale up its efforts to help focus countries meet MDG targets. The emphasis is on countries where the potential for impact is highest. Focus countries fall into three categories: (a) policies in place and ready institutional; (b) policies in right direction but with uneven local capacities, and (c) high need with a nascent reform status.
- *Additional funds for business development*: The Bank has allocated additional funding to develop a number of WSS lending opportunities in countries such as in Madagascar, Vietnam, Bosnia, Argentina and Sri Lanka.

¹⁰ See Annex 2 for corresponding Camdessus recommendations.

- *Emphasis on multisectoral projects:* Following the ongoing Bank-wide shift toward programmatic lending, the WSS sector staff is working closely with colleagues in other sectors to further increase the size of WSS components in multi-sectoral operations. Such operations can be promising and flexible tools to increase resource flows to the WSS sector, especially in rural areas through -- among others -- Community Driven Development (CDD) approaches.
- *DevCo:* The Bank Group is working with partners to develop an advisory partnership to facilitate private sector provision of infrastructure, including water supply and sanitation. To mitigate the risk and cost of project development, DevCo will be a revolving fund to support project identification, preparation and tendering to the private sector.
- *Boost the Sanitation Business:* The absence of specific recommendations on sanitation in the Camdessus report reflects the international deficiency of approaches to boost sanitation coverage on the ground. The Bank Group is committed to sanitation and thus is working to develop its sanitation business. It is stimulating demand, including social marketing campaigns in Africa, a global initiative to improve hand washing with soap, and the use of micro-credit to households for investing in sanitation in Vietnam, Bolivia and India. The Bank is also developing step-wise approaches to investments in tandem with local demand and local institutions.

27. One challenge for the Bank Group and other development agencies is *strengthening donor coordination*¹¹. The MDGs offer a sound framework for this. The Bank Group partners with various agencies in order to share knowledge, leverage resources, build consensus, and support common programmatic approaches at various levels:

- *Global level:* Joint initiatives are underway with most bilateral agencies, many of whom support one or more trust-funded programs. A Bank Group sponsored donor meeting on WSS in May 2003 was a first step towards greater aid effectiveness.
- *Regional level:* The Bank Group works closely with the Regional Development Banks. In following up to the G8 Summit Water Action Plan, the Bank convened a Consultative Meeting with the relevant international financial institutions to discuss the greater use of risk mitigation instruments and sub-sovereign lending. The meeting demonstrated that all institutions are responding to the increasing demand for contractual/regulatory and devaluation instruments. The meeting underscored the importance of support to sub-sovereigns in the WSS sector, including technical assistance for reform, capacity building and financing. It was agreed that increased cooperation between IFIs and bilaterals will be pursued to package sub-sovereign financing together with TA and capacity building. The IFIs also agreed on increased cooperation on: (a) market intelligence, (b) co-guarantee arrangements, (c) joint marketing of instruments, and (d) support to credit rating agencies and development of standard assessment tools.
- *Country level:* The most meaningful cooperation takes place at the country level. The Bank Group increasingly reaches out to other donors where such partnerships demonstrate

¹¹ See Annex 2 for corresponding Camdessus recommendations.

significant value. Joint reviews ensure consistent advice and better coordination of policy support and investment programs. For instance, in Lao PDR the Bank Group works within a common framework for WSS with other donors.

B. Rebuilding Sectoral Knowledge Base

28. In order to improve the knowledge base that supports the Bank Group's engagement in infrastructure sectors, the Bank Group is making a number of additions and changes to its existing program of analytical and advisory work. Notably, a standardized infrastructure assessment, the Recent Economic Developments in Infrastructure (REDI), has been developed to provide diagnostics of infrastructure sectors in order to identify investment opportunities and policy-based operations for a given country. The diagnostics will allow benchmarking and comparison across countries. The REDI will be modular to allow different levels of detail and analysis. To complement this effort, a series of databases on infrastructure is being set up to provide benchmarking in country analytical work. These will also help to improve results measurement and provide data for Global Monitoring efforts. To further increase the impact and use of analytical work, AAA work done by trust-funded Global Programs is being better aligned with regional and anchor-managed ESW, as are capacity building programs managed by the World Bank Institute. Lastly, in recognition of the multi-sectoral linkages of infrastructure with poverty reduction and growth, infrastructure staff will collaborate with other Networks to link infrastructure analytical work to other Bank diagnostics, such as PERs, CEMs, PAs, National Environmental Assessments, and ICAs. This will also help to reduce any potential duplication of work and strengthen the country level evidence of infrastructure contributions to growth and poverty reduction.

29. *Improving sector knowledge*¹² is a prerequisite to scale up the Bank Group's work in the WSS sector. Sector knowledge informs priority setting, feeds into PRSPs and CASs, guides sector reforms, and helps in identifying projects. Therefore, the Bank Group will increase its work in the following areas:

- *Country assessments and plans:* The World Bank is partnering with clients to develop Country Water Resources Assistance Strategies. Moreover, work is ongoing in selected priority countries to produce WSS Country Action Plans that pay special attention to the MDG challenge. These plans are a base to intensify the level of engagement with countries and will feed into PRSPs and CASs to allow more informed project assistance.
- *Improve monitoring and evaluation:* The Bank is committed to work on improving monitoring and evaluation by working with partners to strengthen the UN-mandated Joint Monitoring Program as a point of reference for WSS data at both national and global levels. At the project level, the Bank is strengthening M&E capacity by developing measurement tools, assembling baseline data, and agreeing on the use of standard indicators for WSS projects. Lessons learned will be used to roll out enhanced M&E across the sector.
- *Advisory work:* Advisory work will be stepped up to support countries to establish sound policies and institutional arrangements, thus providing a firm basis for scaling up financial

¹² See Annex 2 for corresponding Camdessus recommendations.

support. Anticipating future population growth patterns, the Bank Group is increasingly focusing on WSS in smaller cities and towns -- for instance in Ethiopia, Uganda and Colombia -- by piloting professional support to smaller operators, and introducing aggregation to create economies of scale.

- *Analytical work:* Analytical work is underway to follow up on technical recommendations of the Camdessus panel, such as the utilities performance benchmarking program, and a study on franchising as a cooperation agreement between public and private partners. Much of this work is done through or with trust-funded programs hosted by the Bank (e.g. Water and Sanitation Program, Bank-Netherlands Water Partnership, and Public Private Infrastructure Advisory Facility).
- *Knowledge sharing and capacity building:* The Bank Group is reinforcing its knowledge sharing with external audiences and linking it more closely with Bank Group operations. The World Bank Institute is leveraging its work through external capacity building institutions. With Bank Group support, a number of professional networks have been established, such as the Water Utility Partnership in Africa and various regional regulators' networks.

C. Maximizing Leverage via New and Existing Instruments

30. To continue the shift towards the service delivery model as well as to maximize funding for infrastructure from all sources, the Action Plan pinpoints a variety of new instruments, business lines, and mechanisms to increase the use of combinations of loans, investments, and guarantees from across the Bank Group. Deepening the use of instruments from across the Bank Group will be encouraged through training, joint missions, and direct incentives to staff. In order to ensure that these cross-institutional collaborations are implemented with attention to conflict of interest issues, guidelines will be clarified and training will continue to be provided to staff. In addition, piloting and expanding the use of output-based aid an important way to mobilize private provision and finance basic services. To complement activities at the country level, the Bank Group will also increasingly look for opportunities to work on regional/multi-country projects, in light of regional integration challenges.

31. The Bank Group is also further refining its instruments to improve resource mobilization and application along two central themes of the Camdessus Report: increasing the Bank Group's role in financing sub-sovereign entities and increasing the deployment of risk mitigation instruments.

32. Decentralization of governmental responsibilities and budgets renders government more closely accountable to communities but also presents challenges in capacity-building at the local level. The Bank Group is strongly committed to support local governments so that they can assume more responsibility, and is becoming increasingly involved at that level. For instance, the IFC recently made its first direct financing for a municipal water project in Mexico. IFC also issued a partial credit guarantee to support a local currency corporate bond issue by a WSS operator in Barranquilla, Colombia, allowing it to raise long term local currency financing to connect 350,000 low-income inhabitants. MIGA guaranteed a performance bond to rehabilitate

and expand Guayaquil's municipal WSS services in Ecuador. Several initiatives are being developed to *increase the Bank Group's role in financing sub-sovereign entities*¹³:

- *Municipal Fund*: In May 2003, The Bank Group created the Municipal Fund to gain market knowledge on investing in municipalities and entities controlled by municipalities, without sovereign guarantees. After about a year and a half of pilot financing operations, recommendations will be prepared on the best ways for the Bank Group to engage with sub-sovereigns.
- *GuarantCo*: Several donors have created the "Private Infrastructure Development Group Trust" which, through various investment vehicles, will provide partial guarantees to encourage private financing of infrastructure in developing countries. One of these investment vehicles is *GuarantCo*, which will be used to guarantee local bond issues and investments at local government level involving the private sector. Through its Development Grant Facility, the Bank is supporting these efforts by providing funds to be used to finance capacity building and training at the local level (public and private) to enable local entities to access the guarantees.
- *Best Practice Guidelines*: The Financial Sector Board of the Bank Group will issue in the fall of 2003 best practice guidelines for lending to sub-sovereign entities.

33. Scaling up the deployment of risk mitigation instruments promises to be an important tool for attracting private funding for the WSS sector, especially in near creditworthy and marginally creditworthy markets. Three actions are under way to *increase the deployment of risk mitigation instruments*¹⁴:

- *Enhancing the use of existing instruments*: The Bank Group will intensify its efforts to promote risk mitigation instruments internally to Country Directors and sector staff. Efforts will be made to deliver the full range of current instruments available to client countries. This approach is being piloted in three Country Assistance Strategies.
- *Developing new instruments*: New approaches are being developed to address the needs and risks in specific country settings. As mentioned above, IFC and MIGA are increasing their guarantee involvement in the WSS sector. The Bank Group is exploring ways to mitigate the critical foreign exchange risk. The Bank will also make available its partial risk guarantees for local currency lenders. In addition, the backstopping liquidity facility concept is being explored to mitigate the foreign exchange risk when a concession is indebted in foreign currency. Such facility would smooth the impact of a devaluation on tariffs. This concept is currently being studied and discussed with a number of governments, and could be piloted in interested countries. Finally, IFC has been involved in providing local currency products since 1998, and has committed almost \$400 million in partial guarantees of local currency loans and bonds.

¹³ See Annex 2 for corresponding Camdessus recommendations.

¹⁴ See Annex 2 for corresponding Camdessus recommendations.

- *Identifying and removing policy constraints to the deployment of risk mitigation instruments:* The Bank Group is currently reviewing internal policies and procedures, which at this time constrain greater use of risk mitigation instruments. In particular, measures to simplify the internal processing of guarantees will be introduced to encourage the use of partial risk guarantees (PRGs). It is envisaged that the deployment of a PRG will lead to an increase of the CAS limit by 75% of the guarantee exposure for IBRD (from 25% currently). Furthermore, IDA is currently considering the proposal to count less than 100% of a guarantee against the IDA allocation envelope and to expand the guarantee program to include notional blends¹⁵ where IBRD exposure cannot be increased.

D. Implementation Issues

34. In addition to the actions in these three main areas -- responding to country demand, rebuilding sector knowledge bases, and maximizing leverage via new and existing instruments -- the Bank Group will continue to address other ongoing business challenges that are very important for the Bank Group's infrastructure business, such as demonstrating and communicating the results of infrastructure interventions, addressing institutional policy constraints and simplifying Bank procedures, as well as looking into the application of safeguards, and better managing Bank Group staffing and incentive issues, including the process of high risk/high reward projects (see Box 5).

Box 5 – High Risk/High Reward Projects

The World Bank will re-engage with high-reward/high-risk infrastructure, using a more effective business model. This "new business model," which will be followed by both the Bank and IFC, puts development impact first; assesses the development impact of both engagement and non-engagement by the Bank; considers the rights and risks of those directly and indirectly affected by such projects; meets social and environmental standards; treats those projects supported by the Bank as Corporate projects from the start; rewards and supports staff who manage such projects; and aims at transparent, crisp, time-bound and predictable decisions.

35. The Management Matrix summarizes all Action Plan areas and outlines a timeline and accountabilities for implementation (see Annex 1). The Matrix will be the basis for managing the Bank Group's infrastructure business over the next few years, and for reporting progress and results on a regular basis.

36. During the initial implementation period of the Action Plan, the focus will be on scaling up Bank Group activities in infrastructure -- facilitated by an administrative budget credit line to stimulate such activity. At this time, the infrastructure sectors plan to use about half of the \$16 million credit line provided to the regions for business development. It is important to note that the process for scaling-up of infrastructure projects, both analytical work and lending, is fully driven by country demand. Bank Country Directors ensured that the incremental work supports the objectives as set out in the Country Assistance Strategies, and, in low income countries,

¹⁵ Blend countries which are not currently creditworthy for IBRD lending, and therefore do not have an option of obtaining an IBRD guarantee.

Poverty Reduction Strategy Papers. The Bank will make every effort to swiftly respond to client demand and implement the projects quickly. It is expected that the majority of the incremental projects funded now will be delivered in FY05, with some projects delivered in FY04.

37. At a meeting in July 2003, the Bank's Board of Executive Directors requested an update on implementation of the Action Plan — including Camdessus Report follow-up on water — for the spring of 2004.

Annex I: Matrix of Management Actions

Infrastructure Action Plan - Overview

- I. Respond to Client Country Demand for Infrastructure**
 - Offer a broad menu of options for public and private sector infrastructure provision
 - Develop new infrastructure business by investing in project pipeline
 - Better integrate infrastructure into CASs and PRSPs

- II. Rebuild Knowledge Base by Strengthening Country Analytical Work**
 - Improve and expand regional/anchor infrastructure diagnostic work
 - Better link infrastructure diagnostic work to other Bank diagnostics
 - Increase impact of analytical work done by Global Programs
 - Develop infrastructure sector databases to improve results measurement

- III. Apply New/Existing Bank Group Instruments Effectively to Maximize Leverage**
 - Create new lines of business and instruments to meet emerging client demands
 - Facilitate and promote joint use of Bank Group instruments
 - Increase understanding of conflict of interest issues across the Bank Group

Infrastructure Action Plan

	ISSUE	ACTIONS	TIMELINE	ACCNT.
I. Respond to Client Country Demand for Infrastructure	➤ Offer a broad menu of options for public and private sector infrastructure provision	<ul style="list-style-type: none"> • Provide sector-specific guidance on the roles of the private and public sectors in infrastructure service provision • Improve knowledge and training/learning programs for staff on Bank Group approaches to infrastructure service provision • Improve communication to clients and NGOs/civil society groups on Bank Group approaches to infrastructure service provision 	<p>FY04</p> <p>FY04-06</p> <p>FY04-06</p>	<p>SBs + GPGs</p> <p>SBs, WBI + GPGs</p> <p>SBs + EXT</p>
	➤ Develop new infrastructure business by investing in project pipeline	<ul style="list-style-type: none"> • Make additional Bank administrative budget available for business development • Identify opportunities for infrastructure deliverables in addition to forecasted WPAs 	<p>FY04-06</p> <p>FY04-06</p>	<p>RVPs + SRM</p> <p>RVPs + SRM</p>
	➤ Better integrate infrastructure into CASs and PRSPs	<ul style="list-style-type: none"> • Set up INF CAS/PRSP engagement process (driven by the regional sector departments and supported by the anchor) • Better integrate infrastructure agenda into Bank programmatic and adjustment lending (e.g. PSALs, PRSCs, SECALs) • Clarify Bank Group role on infrastructure service provision vis-à-vis MDBs and other donors to tap synergies for scaling-up infrastructure 	<p>FY04-06</p> <p>FY04-06</p> <p>FY04-06</p>	<p>SDs + GPGs</p> <p>RVPs/SDs + OPCS</p> <p>RVPs + CDs</p>
	➤ Improve and expand regional/anchor infrastructure diagnostic work	<ul style="list-style-type: none"> • Develop a standardized (non-core) infrastructure diagnostic assessment (the Recent Economic Developments in Infrastructure, “REDI”) and invest in 20 assessments over 2 years • Explore options for reducing “crowding out” of sector ESW by core diagnostics, especially in small countries • Develop mechanisms (e.g. guidelines, training, etc.) for improving the quality and impact of infrastructure ESW/AAA • Conduct diagnostic work at sub-sovereign level through urban poverty diagnostics 	<p>FY04-05</p> <p>FY04-06</p> <p>FY04-06</p> <p>FY04-06</p>	<p>INF. VP + SDs</p> <p>OPCS + RVPs</p> <p>SDs, OPCS + WBI</p> <p>TUD + Urban SB</p>
	➤ Better link infrastructure diagnostic work to (other) Bank diagnostics	<ul style="list-style-type: none"> • Improve treatment of infrastructure issues (e.g. infrastructure-growth-poverty linkages, financing needs, fiscal impact, efficiency measures) in [core] Bank diagnostics • Improve link between infrastructure issues and ICAs / Doing Business Report 	<p>FY04-06</p> <p>FY04-06</p>	<p>SDs, PREM, + DEC</p> <p>INF VP</p>
	II. Rebuild Knowledge Base by Strengthening Country Analytical Work			

Infrastructure Action Plan (cont'd)

	ISSUE	ACTIONS	TIMELINE	ACCNT.
II. (cont'd)	➤ Increase impact of analytical work done by Global Programs	<ul style="list-style-type: none"> Explore options for improved alignment between global program diagnostic work and country programs 	FY04	INF VP, GP Mgrs + FRM
	➤ Develop infrastructure sector databases to underpin Bank analytical work	<ul style="list-style-type: none"> Develop a core set of indicators for each sector and maintain up-to-date sector databases Develop and improve capacity in client countries to generate data and information Use databases to provide benchmarking for country-level analytical work/projects as well as global monitoring efforts 	FY04 - 06 FY04 - 06 FY04 - 06	SBs + Inf. VP DECRG + CDs SDs
	➤ Create new lines of business and instruments to meet client demand	<ul style="list-style-type: none"> Establish new cross-sectoral Private Participation and Finance Department (in the INF Anchor) which combines the PGF and PPI groups Investigate options for providing financing to sub-national entities (e.g. GuarantCo and IFC Municipal Fund), and explore local financing mechanisms Expand use of risk mitigation instruments covering regulatory failure and mitigating foreign exchange exposure, e.g. liquidity backstopping facility Develop regional infrastructure projects, and investigate solutions to incentive, budgetary impediments to multi-country work Pilot OBA as a means to mobilize private provision and finance of basic services 	FY04 FY04 FY04 FY04-06 FY04-06	INF VP IFC Inf. + TUD PFG SDs + LEG + Anchor PFC + RVPs
	III. Apply New / Existing Bank Group Instruments Effectively To Maximize Leverage	<ul style="list-style-type: none"> Facilitate and promote joint use of Bank Group instruments Increase understanding of conflict of interest issues across the Bank Group Enhance the Bank Group capacity-building programs 	<ul style="list-style-type: none"> Use targeted public/IDA subsidies to increase viability of private projects Encourage joint IFC/MIGA/Bank missions for certain sectors/countries and invest in staff exchanges and secondments within the Bank Group Train Bank staff on IFC/MIGA instruments and vice-versa Continue to provide training and improved guidance for conflict of interest management Invest in and mainstream innovative existing and new capacity-building programs 	FY04-06 FY04-06 FY04 FY04-06 FY04-FY06

Ongoing Bank Group Business Challenges

ISSUE	ACTIONS	TIMELINE	PARTNERS	
IV. Demonstrate and Communicate Impact of Infrastructure	<ul style="list-style-type: none"> ➤ Develop framework for understanding the benefits of investing in infrastructure and improve results management framework 	<ul style="list-style-type: none"> ● Improve results measurement of infrastructure contributions to development outcomes at the project level ● Use infrastructure database for results management at sector/country level ● Expand research by and resources spent in DEC on infrastructure ● Implement infrastructure communication plan to better reach external and internal audiences 	<ul style="list-style-type: none"> FY04-06 FY04-06 FY04-06 	<ul style="list-style-type: none"> SDs SDs + CDs DEC EXT + INF VP
	<ul style="list-style-type: none"> ➤ Continue communications agenda on development impact of infrastructure 	<ul style="list-style-type: none"> ● Implement process simplification agenda (e.g. policies and processes, resources and incentives, documentation, fiduciary requirements) 	<ul style="list-style-type: none"> FY04 	<ul style="list-style-type: none"> OPCS
	<ul style="list-style-type: none"> ➤ Facilitate the delivery of more just-in-time investment lending 	<ul style="list-style-type: none"> ● Allow for greater guarantee exposure in IBRD countries; explore options for IDA 	<ul style="list-style-type: none"> FY04 	<ul style="list-style-type: none"> FINCR + FRM
	<ul style="list-style-type: none"> ➤ Remove policy constraints to increased use of guarantees as a way to engage private sector 	<ul style="list-style-type: none"> ● Find a solution for providing guarantees to blend countries where IBRD exposure cannot be increased 	<ul style="list-style-type: none"> FY04 	<ul style="list-style-type: none"> FINCR
V. Address Institutional Policy Constraints	<ul style="list-style-type: none"> ➤ Clarify applicability of safeguards 	<ul style="list-style-type: none"> ● Standardize interpretation of safeguards across regions and instruments 	<ul style="list-style-type: none"> FY04 	<ul style="list-style-type: none"> LEG + OPCS + ESSD
	<ul style="list-style-type: none"> ➤ Clarify applicability of safeguards 	<ul style="list-style-type: none"> ● Clarify interpretation of safeguards in network industries 	<ul style="list-style-type: none"> FY04 	<ul style="list-style-type: none"> LEG + OPCS + ESSD
	<ul style="list-style-type: none"> ➤ Continue to implement strategic staffing plans 	<ul style="list-style-type: none"> ● Manage strategic staffing plans aggressively (e.g. batch recruitment, staff rotations, and skills development, staff exits, role of sector boards) 	<ul style="list-style-type: none"> FY04-06 	<ul style="list-style-type: none"> SBs + SDs + RDs
	<ul style="list-style-type: none"> ➤ Develop incentives for staff to take on risky projects 	<ul style="list-style-type: none"> ● Recognize and prepare high-risk/high-reward projects as a special class of operations - "Corporate Projects" 	<ul style="list-style-type: none"> FY04-06 	<ul style="list-style-type: none"> SFRM
VI. Manage Bank Group Staffing And Incentive Issues	<ul style="list-style-type: none"> ➤ Continue to implement strategic staffing plans 	<ul style="list-style-type: none"> ● Manage strategic staffing plans aggressively (e.g. batch recruitment, staff rotations, and skills development, staff exits, role of sector boards) 	<ul style="list-style-type: none"> FY04-06 	<ul style="list-style-type: none"> SBs + SDs + RDs
	<ul style="list-style-type: none"> ➤ Develop incentives for staff to take on risky projects 	<ul style="list-style-type: none"> ● Recognize and prepare high-risk/high-reward projects as a special class of operations - "Corporate Projects" 	<ul style="list-style-type: none"> FY04-06 	<ul style="list-style-type: none"> SFRM

Annex II: Camdessus Panel Recommendations Relevant to the Bank Group

Bank Area of Action	Responding to Camdessus Recommendations
Water resources management & development	<ul style="list-style-type: none"> ● Within the water sector, ODA should also be used for services that have to be financed publicly because it is not feasible to provide them privately, such as water resource management, large water storage schemes, flood control, capacity building and major irrigation and drainage projects (p. 24). ● The Panel calls on MFIs and donors to resume lending to essential high-risk/high-reward surface and underground water storage projects, subject to adequate social and environmental safeguards (p. 26).
World Bank Group Business Model for Infrastructure	
Facilitate engagement across the public-private spectrum	<ul style="list-style-type: none"> ● ODA technical cooperation should be used to help in the preparation, structuring and implementation of contracts (p. 21). ● A study should be funded for the preparation of best practice and model clauses in the legal agreements of public-private partnerships, with particular reference to the water sector (p. 22). ● ODA should be available to facilitate water projects managed by private operators under public control—for example output-based aid (p. 33). ● Micro-credit schemes, important in financing community water projects, should be supported by donors, MFIs and external NGOs through the provision of seed capital, initial reserves and guarantees (p. 34).
First action area: Responding to Client Country Demand for Infrastructure	
Invest in project development	<ul style="list-style-type: none"> ● Donors should keep funds available for rewarding countries that make early progress on implementation of water programmes in meeting the MDGs (p. 15). ● The creation of a Revolving Fund or funds consisting of grant money to finance the preparation and structuring costs of complex projects (p. 22). ● Governments of developed countries should be held to account for their commitments to increase aid to the water sector. Overall ODA for water should be doubled, as a first step (p. 23). ● Individual donors should contribute their share towards this target, depending on the size of their current aid to the water sector (p. 23). ● Geographically, ODA should favor countries, especially in Africa, where the water service deficit is greatest and where most remains to be done to meet the water MDG targets (p. 24). ● Within countries, grant ODA for water and sanitation should be directed to regions, settlements and social groups where public subsidy is necessary (p. 24).
Strengthen donor coordination	<ul style="list-style-type: none"> ● Responding to Camdessus recommendations: Donor agencies should work to implement the DAC's recommendations on increasing the effectiveness of aid. They should aim to coordinate their efforts in this sector, and avoid the waste and fragmentation typical of earlier water programmes (p.23). ● Rather than funding entire projects or programmes through grants, donors should regard their funds as catalysts to mobilize other flows and empower other players (p. 24). ● Aid should be used to catalyze other financial flows by such means as funding initial overhead costs, providing equity for revolving funds, guarantees, and subsidies targeted to performance (such as output-based aid) (p. 25). ● So far as possible, new instruments should be located in and coordinated by the regional development banks (p. 25).

Second action area: Rebuilding Sectoral Knowledge Base	
<p>Improve and expand sector knowledge</p>	<ul style="list-style-type: none"> ◆ In pursuing the MDG targets donors should support “action planning”, in which planning and project preparation are wrapped into aid projects (p. 20). ◆ Funding for capacity development in water-related institutions at government, municipal and community levels should be a high priority for the use of ODA and MFI funds (p. 20). ◆ Donors should support cooperation agreements involving experienced and reputable public partners, as a means of strengthening core public capacities (p. 20). ◆ ODA should be provided for the work of regional professional associations in support of training, professional exchanges, and data collection & benchmarking. (p. 21). ◆ Donors should report annually about the impact of their aid on achieving the water MDGs (p. 25).
Third action area: Maximizing Leverage via New and Existing Instruments	
<p>Increase the Bank Group’s role in financing sub-sovereign entities</p>	<ul style="list-style-type: none"> ◆ Donors should channel aid to sub-sovereigns requiring funding on concessional terms for water projects.(p. 17). ◆ Donors should provide TA to sub-sovereigns for analyzing and designing water projects. (p. 17). ◆ MFIs that do not now lend to sub-sovereign entities should reconsider their policies, with the aim of permitting such lending subject to normal prudential criteria (p. 26).
<p>Increase the deployment of risk mitigation instruments</p>	<ul style="list-style-type: none"> ◆ There is potential in the MFIs’ use of instruments such as Partial Credit Guarantees and their efforts to raise more bonds in local currency (p. 18). ◆ MFIs should revise their policies on capital provisioning, where these are undue constraints on the use of guarantees (p. 26). ◆ Those MFIs subject to the participation requirement should consider amending their articles to enable them to have the freedom to issue guarantees on a standalone basis (p.26). ◆ MFIs and export credit agencies should enhance and extend political risk coverage for projects, including the use of MFI guarantees (p. 29). ◆ The panel proposes a new Devaluation Liquidity Backstopping Facility as one method of mitigating the risk of foreign exchange fluctuations in water projects at the sub-sovereign level (p. 29). ◆ Governments, MFIs and banks should encourage the development of local capital markets in which projects can obtain part or all of their funding to enable better currency matching of revenues with borrowings (p. 29). ◆ Guarantee and insurance schemes offered by MFIs, governments and ECAs should be expanded in scope and internal constraints on their use should be relaxed (p. 34).