Infrastructure for Low Income Countries

Inter-Agency brainstorming meeting on the way forward after Istanbul
UN Headquarters, NYC, June 28 2011
Low-income countries face large infrastructure investment needs to grow and reduce poverty
The needs are large

1.4 billion people without electricity access

0.9 billion people without safe drinking water

Population without Access to Electricity

Population without Access to Improved Water

Source: IEA World Energy Outlook 2010

Source: WHO and UNICE 2010
The way forward has to include significant efficiency gains
In Africa 1/3 of the funding gap could be met through efficiency gains.

- Spending needs $93
- Existing spending $45
- Efficiency gap $17
- Improving operational efficiency $7.5
- Prioritizing public spending $3.3
- Increasing cost recovery $4.7

Funding gap $31

All figures in US$ billion a year. Source: AICD.
For small countries, regional projects can help reduce costs

Source: World Bank
The way forward will also require spending more
Public domestic funding is constrained

Africa’s infrastructure needs are equivalent to total government revenues

Source: AICD and World Development Indicators
Infrastructure ODA is small relative to the need

MDB and Bilateral ODA, 2000-2011* (US$ billions)

Sources: OECD, AfDB, AsDB, EIB, EBRD, IADB, IsDB, WB
Infrastructure ODA is small relative to the need

MDB and Bilateral ODA versus needs (US$ billions)

* Estimates for 2010 and 2011

Sources: OECD, AfDB, AsDB, EIB, EBRD, IADB, IsDB, WB
And likely to decline

WBG lending will decline due to capital constraints

Source: Business Warehouse
Projected data based on assumptions made on infrastructure share and "Review of IBRD and IFC Financial Capacities" (DC2010-0005)
A need to leverage existing resources to tap new ones
PPI is low relative to potential

Investment in PPI projects in LICs as share of GDP, 1990-2009

Source: World Bank and PPIAF
Due to the lack of a robust project pipeline
Pipeline problem compounded for regional projects

Infrastructure Project Preparation Costs: Regional Projects

- **Bujagali**: 2%
- **Nam Theun 2**: 9%
- **Inga 3 (Under preparation)**: 2%
- **Cahora Bassa Nth (Under preparation)**: 6%
Non-OECD financiers—growing in importance particularly in Africa

External infrastructure financing in SSA

- **2001**
  - ODA 50%
  - PPI 50%
  - Total: ~$6Bn

- **2005-09 Average**
  - ODA 34%
  - China 16%
  - India 6%
  - Arab States 8%
  - PPI 36%
  - Total: ~$20Bn

Source: AICD, *Building Bridges* update
Domestic investors—largely untapped due to a need for local capital deepening

- Short-term tenor ill-suited to infrastructure projects
- Local banks lack capacity and proper financial instruments
- Regulations not conducive to this magnitude investment
- Intermediate capital longs for suitable projects
- Local bond issuance needed to deepen domestic bond markets, set yield benchmarks for longer tenors
What can MDBs do?
Already moving or proposed

- Better leverage own resources to address pipeline problem
- Renewed emphasis on regional approaches and “transformational” projects
- Help Government borrow more safely where appropriate
- Data to monitor progress and benchmark performance