

ENABLING GROWTH IN UNDERPOWERED ECONOMIES: GETTING RECOGNITION FOR THE IMPORTANCE OF TRANSPORT

Eijbergen, B.L.J.

The World Bank¹

ABSTRACT

The main theme of my paper and presentation is the role of infrastructure in enabling growth in, and the World Bank's support for infrastructure in developing countries which I prefer to call Underpowered Economies, Underpowered Economies is a much nicer and better reflection of the economies we are trying to improve.

But first, let me take a few minutes to offer a little background on the World Bank, and the challenges that we are trying to address. The World Bank's mission has changed considerably since our inception 60 years ago. We were initially set up to assist with post-war reconstruction of Europe—indeed, our very first loan went to France. We have since evolved into what we are today: an organization whose single focus is to fight poverty in developing countries across the world. The Bank is particularly engaged in helping developing countries meet the so-called Millennium Development Goals (MDGs). The MDGs commit the international community and the Bank to a set of specific goals, to be achieved by 2015. They aim, for example, to reduce extreme poverty by half; ensure universal primary education; reduce child mortality; combat the spread of HIV/AIDS and malaria; and increase access to safe drinking water.

Obviously, this is no small feat—as the daunting facts clearly show. We live today in a world of 6 billion people, of which 5 billion live in developing countries. Some 2.8 billion people, nearly half of the world's population, survive on less than \$2 a day. In the coming years, the world's population will increase by 2 billion people—nearly all of whom will be born in developing countries. Add to this the devastating impact of HIV/AIDS, particularly in Sub-Saharan Africa, where life expectancy has dropped from 65 to only 47 years, and more than 12 million children are orphaned. These are only a few figures to demonstrate that the development challenge of reducing poverty and meeting the MDGs is simply tremendous.

1. HOW DOES THE WORLD BANK FUNCTION AND HELP MEET THE MDGS?

The **World Bank Group** employs more than 10,000 staff from over 140 countries. Almost half of our staff are now working in decentralized offices in order to be close to their clients. The Bank is made up of four main institutions. Two of these—the International Bank for Reconstruction and Development (IBRD) and the International Development Agency (IDA)—provide low-interest loans, grants, policy advice, and technical assistance to developing countries. The third—probably the one known best by most of you—is the International Finance Corporation. The IFC provides debt and equity finance, as well as credit enhancement to private companies investing in developing countries. The Multi-lateral Investment Guarantee Agency (MIGA), the fourth part of the Bank Group, provides political risk insurance.

¹ The views expressed in this paper are those of the author and do not necessarily reflect those of the World Bank

The **mandate of these four organizations** is to support developing countries; to assist countries that run into economic and financial crises such as Korea a couple of years ago; and to help in the reconstruction of countries that emerge from conflict, such as Kosovo and East Timor. The combined capital base of the World Bank Group is over \$200 billion. Over the years, the World Bank has provided around \$350 billion worth of support, and we have outstanding, even today, close to another \$250 billion in commitments. We make about \$20 billion in new lending commitments every year and operate in over 100 countries. To put these numbers into perspective: total overseas development assistance is about \$50 billion. While not insubstantial, this figure pales in comparison to the \$900 billion spent annually on defense (\$200 billion by developing countries), and the \$350 billion spent on agricultural subsidies in rich countries. In the words of World Bank President James Wolfensohn, “the international community may have its priorities backward. If the world would spend \$900 billion on development assistance, it would probably only need 50\$ billion for defense purposes.”

Let me now turn to the subject of the concept of this paper: **enabling global growth—the role of infrastructure**. The concept of enabling growth focuses on three sets of issues: (1) the critical role of infrastructure in economic development, and the great challenges that exist in increasing access to quality infrastructure services; (2) the changing nature of the global infrastructure business over the last few years; and (3) the implications for, and emerging trends in the World Bank’s infrastructure business over the next 2-3 years.

2. INFRASTRUCTURE: GROWTH, ACCESS, AND FINANCE

2.1 Infrastructure as a Vehicle for Economic Growth

I can think of no country that has achieved continuous **economic development** without developing its infrastructure at the same time. It would be like trying to drive a car without power. As a transport professional and coming from a 100 % ‘infrastructure’ country, The Netherlands, it is obvious and clear why infrastructure and development are so intertwined.

In the Bank we have ongoing discussions on the issue of development and infrastructure, infrastructure can be seen² as a space-shrinker, it enlarges markets, and operates like the lowering of trade barriers. In Urban areas, it can be shown that infrastructure and its related services contribute to enlarging the effective size of the labor market³ and of the goods markets, thus increasing productivity and output.

Needless to say that Economic development is the most important tool we have in helping to lift people out of poverty. Infrastructure influences growth in many ways. Infrastructure services, such as efficient transportation, reliable electricity supply, safe drinking water, and modern telecommunication systems are important for any country that wishes to create a conducive environment for doing business and attracting foreign investment. Infrastructure is key for the efficient transportation of goods and services across national boundaries, thereby facilitating trade. Infrastructure also enhances human capital by improving access to schools, health centers, and other services. In Morocco for example, the completion of an all-weather road in rural communities increased girls’ primary school attendance from 28% before the road was built to 68% afterwards. Access to clean water reduces the probability of child mortality by 55%. And, infrastructure such as renewable energy can also improve environmental conditions, leading to better livelihoods and health. It should not come as a surprise that the World Bank infrastructure projects have consistently had high economic rates of return, averaging between 20%-35% over the last 20 years.

² Infrastructure and Development, Professor emeritus Remy Prud’homme, Paper prepared for the ABCDE (annual Bank Conference on Development Economics) Washington, May 3-5, 2004

³ Labor Mobility is subject of a study in the EB region Europe and Central Asia, World Bank report June 2004

Not only the Bank is providing a lot of data on this link between Infrastructure and economic growth, for instance Calderon and Steven in their recent publication “the Effects of Infrastructure Development on Growth and income Distribution indicates that growth is positively affected by the stock of infrastructure assets and that income inequality declines with higher infrastructure quantity and quality. As a conclusion they indicated that infrastructure development can be highly effective to combat poverty. Calderon and Steven used a large panel data set encompassing over 100 countries and spanning the years 1960- 2000⁴

2.2. Challenges to Increase Access to Quality Infrastructure

With over 80 percent of the world’s population living in developing countries, infrastructure is critical to support long-term global growth. But increasing **access to quality infrastructure services** across the world is an immense challenge. We know that worldwide, roughly 1 billion people have no access to clean water supply, and 2.4 billion live with inadequate sanitation. Some 3 billion people have no access to modern energy, while 4 billion have no access to telephones. One billion people lack access to an all-season road—services that are all taken for granted in any industrialized country. In sub-Saharan Africa, only 10% of the population have access to electricity and 2% to telephones. These access challenges are exacerbated by the low quality of infrastructure services—such as frequent service interruptions and outages. The figures make no distinction between people who have access to these services 24 hours a day and those with access for only a few hours. Energy losses are twice as large in low income developing countries as they are in the world’s most developed nations like the United States. Water losses are four times as high, and faulty telephone lines are ten times more common.

2.3. Infrastructure Financing Challenges

Despite clear recognition of the critical role of infrastructure in enabling growth and reducing poverty, current financing for infrastructure in developing countries remains far below the levels needed. Our latest estimates show that developing countries need to spend about 6-7 percent of their GDP over the next few years in order to address their infrastructure needs. Half of this expenditure is needed for new infrastructure investments and half for operations and maintenance. However, actual amounts spent on infrastructure in recent years have been only about 3-4% of GDP, on average. This suggests that in order to meet infrastructure needs, expenditures in developing countries would need to double from their current levels. In dollar terms, they will need to spend roughly \$550-650 billion *annually* to finance infrastructure. This includes about \$250-300 billion for electricity generation; about \$30-40 billion for water supply and sanitation; and \$80-100 billion for roads.⁵ Part of the reason why the financing challenge is so large is that investment in infrastructure has declined significantly since the late 1990s—from private as well as international and domestic public sources.

For South Africa this would mean, a rough calculation, that South Africa should invest in Transport related infrastructure of around 25 ZAR (or 3.5 USD) billion annually. The current budgets that the government is putting into Transport Infrastructure -if one would follow the Bank’s formula – would not be sufficient. However it appears like elsewhere in the world that there seems to be a growing recognition that public spending on transport infrastructure must go up, it will likely reach 1.7 billion ZAR in 2006/07⁶, a 23 % increase between 2000/01 and 2003/04. This is encouraging but is this enough ? Another rough calculation suggests that based on South Africa’s GDP of around 600 billion ZAR at least 35 billion ZAR should be allocated for Infrastructure of which a significant part (10-15 billion ZAR annually) ought to be spent on Transport Infrastructure.

⁴ The effects of Infrastructure Development on Growth and Income Distribution, Cesar Calderon and Luis Serven, Draft version of March 2004

⁵ FYI - these figures are the most accurate currently available estimates; however, they are subject to further refinement as additional information becomes available.

⁶ Budget 2004 National Medium Term Expenditures Estimates, South Africa National Treasury

“South Africa's abundant mineral and energy resources form the core of the country's economic activity. Much of manufacturing is based on mining, and exports are led by gold and diamonds. Economic growth remains slow and employment remains stagnant. In the post-apartheid era, the government has focused on controlling the deficit while striving to step up spending on social programs to combat inequality. The central bank has used tight macro-economic policies to control inflation.

While South Africa's per capita income of about \$3,020 (Atlas method) places it among the middle-income countries, its income disparities are among the most extreme in the world. Thirteen per cent of the population (about 5.4 million people) lives in "first world" conditions. At the other extreme, 53 percent of the population (about 22 million people), live in "third world" conditions. In this group only one quarter of households have access to electricity and running water; only half have a primary school education; and over a third of the children suffer from chronic malnutrition. Reducing inequality and poverty, and tackling unemployment, among the highest in the world, are some of the key challenges faced by the post-apartheid government. In 1999 there were an estimated 4.1 million adults who were HIV positive and this amounts to an infection rate of 19.9 percent. The estimated number of deaths due to AIDS were estimated by UNAIDS at 250,000 in 1999. This led to a huge number of orphans, about 420,000, cumulative by 1999 of which 370,952 are alive.”

World Bank Country Profile, South Africa, 2004

3. WORLD BANK GROUP SUPPORT FOR INFRASTRUCTURE: PAST, PRESENT, AND FUTURE

This leads me to the second issue that I would like to address today. The decline in infrastructure investments is, in part, the result of a tremendous revolution in the way infrastructure services have been provided, starting in the early 1990s—a revolution which has also fundamentally changed the role of the World Bank in this area. Let me briefly review the important changes that have taken place in the role of the public and private sector in providing infrastructure services. I will then highlight some key lessons we have learned from the experience and leave it up to you to decide which lessons are important to South Africa. and apply to the transport situation in South Africa. Of course South Africa is a unique country with specific circumstances. On the one hand South Africa has the most modern and extensive transport infrastructures in Africa with sizeable and efficient ports, a road network that is excellent and with good airlinks to Europe, US, Asia and the rest of Africa. No wonder this infrastructure plays a crucial role in the country's economy and is dependent on by many neighboring states. However at the same time the transport sector is highly concentrated and even controlled by State Owned Enterprises, the rural roads -as you know far better- are very poor, as are road and rail links with the townships and homelands. It is a difficult situation, but it is promising that private sector involvement is taken seriously and the Spatial Development Initiatives with its Black Empowerment focus is trying to increase private sector involvement in Infrastructure/Transport, furthermore the huge parastatal Transnet is in the midst of restructuring while privatization is being considered.

But let me return to the global picture, clearly not everything went as originally anticipated and hoped for—and we have hence subsequently modified our thinking and approach.

3.1. Change in Paradigm of Private and Public Sector Provision of Infrastructure Services

- Traditionally, government-owned enterprises have been responsible for providing infrastructure services. Beginning in the early 1990s, however, many countries implemented significant reforms and liberalized key infrastructure sectors—paving the way for an unprecedented influx of capital to infrastructure projects. A “new paradigm” emerged which—in a nutshell—said that the state should cease to be directly responsible for service provision, and delegate that responsibility where possible to the private sector. This paradigm shift was visible in many countries making significant progress on policy reform, above all in telecommunications. By the year 2000, private telephone companies were the norm in close to half of all developing countries.

These policy changes increased investment opportunities and reduced the perception of risks associated with investments in developing countries. As a consequence, **investment in infrastructure projects with private participation** rose dramatically. This private participation took many different forms: ranging from asset sales/privatization, concessions, build-own-operate (BOO) and build-operate-transfer (BOT) schemes, to management contracts and—in francophone countries—*affermage* (leasing). From 1990 until 2002 about \$805 billion was invested in projects with private participation in infrastructure. The bulk of this has gone to the telecommunications sector (\$355 billion) and to energy (\$268 billion); water and sewage has received the least (\$43 billion); with transport in the middle (\$136 billion). In terms of regions, the bulk of investment has gone to Latin America (\$397 billion) and East Asia Pacific (\$198 billion), and to a lesser extent to Eastern Europe and Central Asia (\$109 billion).

- Although infrastructure has become now an ubiquitous theme in a variety of areas of the policy debate regarding trade liberalization and even in helping reduce income inequality⁷. Against this background, there is a growing perception that in many countries the pressures of fiscal consolidation and austerity have led to a compression of public infrastructure spending which has not been offset by the increase in private sector participation, thus resulting in an insufficient provision of infrastructure services with potentially major adverse effects on growth and inequality.
- The financial crisis also distracted attention from some longer-term trends that will affect all countries in the region to a greater or lesser extent. Perhaps the most dramatic is urbanization.⁸ Over the next 20 years, the urban population in EAP is projected to increase by 500 million -- an increase of 60%. By 2015, more than half the region's population will live in urban areas. While **the growth of "megacities"** is dramatic, the concentration of the urban population varies from country to country. Indeed, most urban dwellers reside in small and medium-sized cities with less than 1 million people. All of these urban areas will face mounting infrastructure pressures, especially on the provision of basic services for the poor. At the same time, countries will have to address infrastructure bottlenecks in rural areas, which reduce income-generating opportunities in agriculture and non-farm activities, and induce the migration of people to the cities to find work. **Urbanization goes hand in hand with greater decentralization of government administration and fiscal responsibilities**⁹. As shown in Figure 1, China is already highly decentralized, with more than 60% of government spending at the sub-national level. The Philippines (40%) and Indonesia (30%) are rapidly moving in this direction. With decentralization, sub-national governments will be expected to take on increased responsibility for infrastructure development and service provision. The challenge will be to ensure that they have the necessary resources and capacity to take on these responsibilities effectively – with appropriate oversight, coordination and support from higher levels of government. A particular challenge will be to ensure effective development of large-scale infrastructure networks (e.g., electricity grids, primary transport connections), which need to cross more than one sub-national area. South Africa is a rapidly urbanizing nation that is unlikely to change and will continue to put huge strains on the country's municipal authorities. This world wide trend is very visible here in South Africa. The South African Cities Network issued a recent report in which it is that the Gauteng region will be the 12th largest city in the world by 2015 mega larger than Los Angeles. This SACN report outlines that in the long term there is a need 'to shape appropriately located development, improve public transport, mitigate environmental health risks, anticipate possible disasters and invest in bulk infrastructure capacity"

⁷ A. Estache, V. Foster and Q. Wodon, "Accounting for poverty in infrastructure reform: learning from latin america's experience WBI/World Bank" 2002, A. Estache, "On Latin America's infrastructure privatization and its distributional effects", 2003.

⁸ For a review of East Asia's urban transformation, see the World Bank (2003a).

⁹ Infrastructure in East Asia; the way forward, Issues paper for an ADB-JBIC World Bank Flagship study 2004

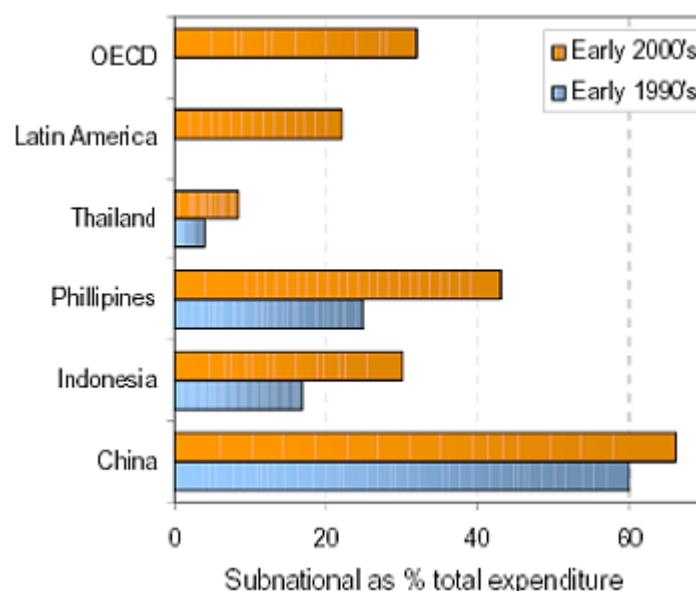


Figure 1.

- The role of the **World Bank Group** also changed considerably as private investment increased. We moved away from simply financing capital assets and concentrated more on providing policy advice and building regulatory and institutional capacity. World Bank lending for infrastructure projects declined by about 30%, from the early 1990s until the early 2000s.
- Altogether, these changes have resulted in some **significant successes**. For example, power privatizations in Chile, Peru, and Argentina—from the date they were privatized until 1998—achieved tremendous improvements. Sales grew between 20% and 80% p.a.; losses were reduced by between 50% and 70%; and productivity increased dramatically. In Uganda, the entry of mobile telephone operators led to a significant increase in phone connections often outnumbering those provided under fixed line services. In fact, having more mobile phone than fixed line subscribers is quickly becoming the norm in much of Sub-Saharan Africa. Meanwhile, the rate of new household water connections in La Paz and El Alto, Bolivia, increased by two-thirds and sewage services increased by 30% following the entry of a private concessionaire.

3.2. Recent Problems with Private Participation and Highlights of Lessons Learned

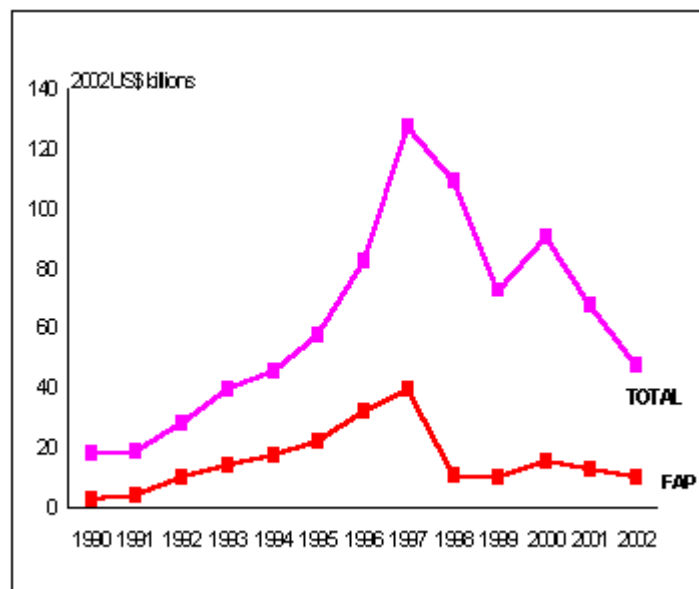
Despite these successes, however, the experience over the 1990s has also shown that the model of relying solely on private participation in infrastructure has clear limitations. These limitations have become evident since the late 1990s.

- Success in infrastructure **reform** has been **uneven**. In many countries reforms were implemented with limited government ownership which led to failed or half hearted reforms, and ultimately led to renegotiations of many contracts. In Latin America, for example, about 30% of all concessions have been renegotiated within a couple of years of signing.
- Even during the ‘peak years’ in the mid-1990s, private investment was very **concentrated** in a few emerging market economies. For example, from 1990-2001, roughly 50% of investment went to only 5 countries (Brazil, Argentina, Mexico, China, and Malaysia). It proved also very difficult to deepen private participation beyond some **flagship transactions** in order to deliver services in some of the less developed regions in a country (or those targeted to poorer segments of society). What we call ‘frontier countries and regions’, such as Sub-Saharan Africa and

Central Asia, have had limited success in attracting private sector investment outside of telecommunications.

- Following the economic crises in Asia, Russia, and most recently in Argentina, the **cost of capital and risk premium** also shot past the point where most new infrastructure projects could generate adequate returns. The increase in risk premium was exacerbated by the significant **currency mismatch** that existed in many of these transactions, where revenue streams denominated in local currency did not match foreign currency debt service obligations.
- There have also been **high profile problems** with ‘model’ private participation schemes, such as the railways in the UK, the Manila water concession, the utility crises in Argentina, and the energy crisis in California. These have led to increasing public skepticism (as well as skepticism by some governments) about the appropriate role of the private sector in providing services considered as “public goods.” Some privatizations have also been criticized for their lack of transparency, excessive profits for multinational companies, and the fact that the poor were at times overlooked.

Overall, since its \$127 billion peak in 1997 **investment in infrastructure projects with private participation**¹⁰ has been declining, and in 2002 stood at \$47 billion--which is equivalent to the level in 1994. The decline took place across the board—with the biggest fall in telecommunications and transport. Not surprisingly East Asia and Latin America, the regions that accounted for most of the original private sector investments, took the biggest hits. However, while low income countries received a small portion of these flows, they have been relatively stable. The bottom line is that, today, many sponsors are pulling out of developing countries—driven by pressure from shareholders to exit uncertain markets and reduce risk. Commercial banks, a second important pillar of the private service provision model, have also very little appetite for additional infrastructure project syndications.



Source: The World Bank

Figure 2.

What does this mean in terms of **key lessons** learned?

¹⁰ Source: World Bank, PPI Project Database. Data include all commitments (public and private) to invest in projects with private participation

First of all it is important to put the above developments into *perspective*. While private sector participation has been declining, it is still significantly more important than international development assistance—such as loans and grants from institutions like the World Bank or from bilateral aid programs. Whereas in the early 1990s the share of private investment and international development assistance were about equal, today the private share is still about 3-4 times as large. Additionally, of the almost 2,500 private infrastructure projects worldwide, only 48 have been exited to date. Second, with the benefit of hindsight, we can say that successful private investment does not occur in a vacuum. Lasting success requires sustained government commitment to *comprehensive reform*: private infrastructure operators and financiers are simply not tolerant of a piecemeal approach. Implementation of reforms has often stalled due to the very intricate political and social nature of the infrastructure sectors and the hesitancy to adjust tariffs— given political pressures and the absence of social safety nets. Third, well designed and well implemented *private participation schemes have brought clear benefits*—but they have certainly not brought perfection. And, finally, we should not forget that some transactions were simply *poorly designed* in terms of inaccurate demand forecasts and weak (firm level) governance structure. These design issues lay at the heart of the problems that subsequently occurred.

3.3. Implications for the World Bank's Infrastructure Business for the Next Few Years

Let me now turn to the implications for the **World Bank's involvement in infrastructure**—in light of these experiences and lessons learned. The World Bank, like other multi-lateral financial institutions, is well positioned to help address some of the infrastructure challenges—not least due to its dual capacity as advisor to governments on policy reform and as a provider of long term financing. The longevity of the World Bank's sustained relationship with its client countries matches the long-term nature of the infrastructure efforts. In addition, the World Bank can play an important role in strengthening governance, promoting transparency, including anti-corruption, and ensuring the long term sustainability of infrastructure projects from a social and environmental point of view—all critical for successful infrastructure development.

What does this mean concretely for our business? Where do we see our infrastructure business going? Overall, the World Bank is currently seeing a 'revival' of its infrastructure business which is why we began to redefine our infrastructure agenda in an Infrastructure Action Plan. Among many other things, we are anticipating that the Bank's lending for infrastructure will increase again over the next few years in part to make up for the shortfall in private sector flows.¹¹ Let me give you some specifics—along our sectoral and regional businesses, as well as in terms of new, emerging business lines.

- **Sectoral evolution.** Over the past five years our lending business was, approximately speaking, 30% in energy, over 45% in transport, 20% in water and sanitation, and less than 5% in telecommunications. Going forward, we are expecting to see an increase in World Bank engagement (in terms of lending, but also policy advice) across all of these sectors. The **water supply and sanitation** sector already sees a significant increase in recent years: lending volumes have increased from under \$500 million two years ago to a projected \$1.5 billion this year. In part, this reflects our increasing willingness to work again with well performing and reforming public utilities---in light of the fact that the water sector has seen very little private sector participation in the first place: private financing in water and sanitation has never accounted for more than 10% over the last decade. In the **power sector**, despite the difficulties some private operators have had and are having, we still believe that private sector investment for *power generation* is preferred—except in some specific circumstances, such as large hydroelectric projects, where the World Bank's role of being able to integrate the long term

¹¹ It has already increased this year (FY04) to an estimated \$6-6.5 billion (from \$5.4 billion in FY03) and is likely to increase next year (FY05) by an additional billion dollars to \$7 billion. IFC project financing has also been increasing and stands today at about \$1 billion—up by 30% compared to last year.

environmental and governance agenda with financing and operating requirements is particularly evident. For *power transmission* and *distribution* the World Bank sees a larger role for itself—and would support public investments through a variety of instruments (e.g. credit enhancements, direct lending, etc.)—again provided public utilities are well performing and there is a credible plan for overall sector development. *Renewable energy* is also expected to grow in terms of Bank involvement—at about 20% every year for the next few years. We are already today one of the largest financiers of renewable energies in developing countries. **Telecommunications** will remain a sector in which the Bank does not expect to play a major financial role, except in very specific circumstances such as countries that are just emerging from conflict (i.e. we have very recently financed a telecommunications project in Afghanistan). Finally, we are also considering projects in areas in which we have not been very active in recent years, such as **airport construction**. We have just completed the project design of a \$300 million airport project in Egypt—the largest we have ever done in the Middle East and North Africa—which combines public finance with private management and operation of the airport.

- **Regional evolution.** Over the past five years approximately 30% of our lending business was in East Asia Pacific; about 15% in each of Africa, Eastern and Central Europe, and Latin America; 25% in South Asia; and less than 5% in the Middle East and North Africa. In terms of regional trends we have seen very strong growth in our business in **Africa** in recent years—nearly doubling our lending volumes. Strong growth is also occurring across countries **East Asia Pacific**. In China we have always had a very strong infrastructure program but we are also seeing re-engagement in some of the other countries that were hit hard by the crisis, such as Indonesia. Going forward, we expect to see a substantial increase in lending for infrastructure in **South Asia**. In **Eastern and Central Europe** we anticipate a gradual move to the ‘east’ as the now new members of the European Union (as well as others) increasingly gain access to alternative sources of financing, particularly through the European Investment Bank. In the medium term, the evolution of our work will also depend significantly on the domestic fiscal and debt position of many client countries, especially in **Latin America**, where the fiscal and debt constraints are most acute.
- **New, emerging business lines.** Let me also mention a few additional anticipated changes in our infrastructure work. First, we are seeing an increasing number of **regional/multi-country projects** emerging—such as cross country roads and regional energy markets. In Africa, for example, we are currently developing 8 operations—with commitments of over \$800 million—that have a regional dimension at the heart of the project. We believe that this will continue to be a growing business area for us, since we are, as a global multi-lateral organization, particularly well placed to support these kinds of projects. Second, although our traditional counterparts have been client governments at the national level, with increasing fiscal and political decentralization, we see a growing role for us to operate at the **sub-sovereign level**—in other words, at the state and municipal levels — where a major part of the investment is needed (e.g. urban water supply etc.). We have recently established a Bank/IFC Municipal Fund—that can provide debt and equity finance, as well as credit enhancements through guarantees directly to municipalities and municipally owned enterprises. Third, we also expect to see much more **blending of financial resources**—political risk insurance, private sector project finance, public sector financing, and grants—as, for example, in **the recent South Africa Regional Gas Project**. The project will mobilize about \$1 billion in private sector investment, equivalent to one-third of Africa’s total private sector investment in infrastructure in 2002 through combining a World Bank partial risk guarantee and MIGA political risk guarantees, and IFC equity.

- In other projects, such as a recent water project in Cambodia and power project in Tajikistan, we are providing explicit subsidies through grants to make investment for the private sector more attractive (e.g. subsidizing connection to poor households). Last, but not least, we are also expecting to strengthen our role as helping to put in place the appropriate **governance structures** and help **fight corruption** in difficult country circumstances—as we did for the Chad Cameroon pipeline. The project is a good example where, through our role as an ‘honest broker’, we helped to ensure that the benefits of the private investment are translated into productive economic use to help reduce poverty and stimulate growth.

4. CONCLUSION

As outlined above, the development challenges are huge. And so are the infrastructure access needs and the associated financing gaps. We have learned significant lessons from our experience with private sector participation in infrastructure over the 1990s. We have learned that well designed and implemented projects with private participation have tremendous benefits in terms of increasing access and mobilizing sources of funds. But we have also learned that private sector involvement is in no way a panacea. The World Bank, therefore, has a key role to play. One is as an agency that can work with national governments to create the conditions for successful investments in infrastructure, through working on sector reform, regulation, governance, transparency, and anti-corruption. The other is our ability to invest directly in those circumstances where the private sector finds it more difficult to make adequate returns—such as in the cases of less economically developed parts of countries, or thorough subsidizing the gradual increase of tariffs to ensure cost recovery, or through innovative transactions that demonstrate to the private sector that investments in difficult market conditions can be successful. That’s our role and that’s how the Bank sees its contribution in developing Infrastructure; perhaps South Africa does not need financing and /or technical assistance from the Bank but for sure it is faced with a lot of issues the Bank is trying to address in countries across the world. These lessons and experiences are most valuable to South Africa. Infrastructure plays a very important role in stimulating the economy and in bringing together the society. Just let me conclude, after a decade long journey the Bank has come back to one of its fundamental core roots of development and that is Infrastructure and has finally given to ‘Transport’ the recognition it deserves. In order to Enable Growth in Underpowered Economies - such as South Africa- Transport Infrastructure is of critical importance and the Bank stands ready to work with countries in improving its Infrastructure networks and systems.

APPENDIX

Additional Detailed Information in Case Some There are Questions on Key Figures

Table 1. Investment in Infrastructure Projects with Private Participation in Developing Countries, 1990-2002 (2002 \$ billions).

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Total
Region														
Africa	0.1	0.0	0.1	0.0	0.8	0.9	1.6	4.8	2.7	4.8	3.4	5.0	3.5	27.8
East Asia Pacific	2.7	4.3	9.7	13.7	17.1	22.2	32.1	39.0	10.6	9.8	15.0	12.4	9.7	198.4
Europe and Central Asia	0.1	0.4	1.4	1.5	4.4	9.5	12.4	16.0	13.1	10.0	23.2	7.3	9.7	109.0
Latin America and Caribbean	14.9	12.9	16.5	19.3	19.5	20.2	29.6	55.3	77.0	39.9	40.5	34.3	17.3	397.2
Middle East and North Africa	0.0	-	0.0	3.6	0.4	0.1	0.4	5.7	3.4	3.2	4.1	3.9	1.6	26.4
South Asia	0.4	0.8	0.1	1.4	3.4	4.2	6.6	6.8	2.8	5.0	4.2	4.6	5.5	45.8
Sector														
Energy	1.3	1.3	13.1	15.9	17.2	25.4	34.2	51.6	30.5	18.0	28.4	14.9	16.5	268.4
Telecommunications	6.3	13.7	8.0	9.9	18.8	20.2	28.5	44.3	56.3	38.7	47.3	40.2	23.7	355.9
Transport	10.5	3.4	4.7	5.8	9.0	9.7	18.1	22.1	19.3	9.0	9.9	10.0	5.2	136.7
Water and Sanitation	-	0.1	2.0	8.0	0.5	1.8	2.0	9.4	3.5	7.0	4.9	2.5	1.9	43.6
Total	18.1	18.5	27.7	39.6	45.6	57.1	82.8	127.5	109.6	72.7	90.5	67.6	47.3	804.6

Table 2. World Bank Infrastructure Lending Commitments, FY99-FY03 (\$millions).

	1999	2000	2001	2002	2003	% Share of Total INF Lending, FY99-FY03
Region						
Africa	613	613	807	1,128	1,353	16%
East Asia Pacific	1,787	2,003	1,295	900	1,354	27%
Europe and Central Asia	1,406	846	664	426	361	13%
Latin America and the Caribbean	809	388	1,082	975	681	14%
Middle East and North Africa	264	281	161	215	291	4%
South Asia	1,079	944	2,115	1,420	1,270	25%
Sector*						
Energy and Mining	1,437	1,572	1,531	1,975	1,088	28%
Information and Communications	165	274	217	153	115	3%
Transportation	3,231	1,717	3,105	2,391	2,727	48%
Water and Sanitation	1,125	1,513	1,272	546	1,378	21%
Total	5,958	5,076	6,125	5,064	5,309	100%

*The Sectors listed include the following sub-sectors: Energy and Mining: mining, oil and gas, power, renewable energy, district heating; Information and communications technology: postal services, telecommunications; Transportation: roads and highways, aviation, ports and shipping, railways, urban transport, rural transport; Water and Sanitation: flood protection, sanitation and sewerage, water supply.