



PARTNERING TO BUILD A BETTER WORLD: MDBs' COMMON APPROACHES TO SUPPORTING INFRASTRUCTURE DEVELOPMENT

**Prepared by MDBs for Circulation to
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Table of Contents

- I. Introduction 4
- II. Context..... 5
 - A. Shared Principles..... 5
 - B. Setting Priorities – Country Strategy and Programming 6
- III. MDBs’ Support to Help Countries Meet Infrastructure Needs 8
- IV. Going Forward 13
- ANNEX I..... 17
 - MDB Partnering to Build a Better World: Project Preparation Facilities at a Glance 17
- ANNEX II..... 20
 - MDB Knowledge-Sharing in Infrastructure Development..... 20

Acronyms

AfDB	African Development Bank
Africa50	African Development Bank Africa50 Initiative
AIIB	Asian Infrastructure Investment Bank
ALSF	African Legal Support Facility
AP3F	Asia Pacific Project Preparation Facility
APN	Asia PPP Practitioners' Network
AsDB	Asian Development Bank
BMC	Borrowing Member Country
BNDES	<i>Banco Nacional do Desenvolvimento</i>
CFA	Chartered Financial Analyst
COP 21	XXI Conference of the Parties
DMC	Developing Member Country
DWG	Development Working Group
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EPEC	European Investment Bank PPP Expertise Center
G8	Group of Eight
G20	Group of Twenty
GIF	Global Infrastructure Facility
GIH	Global Infrastructure Hub
ICA	Infrastructure Consortium for Africa
IDB/IADB/IDBG	Inter-American Development Bank/Inter-American Development Bank Group
IFAD	International Fund for Agriculture Development
IFC	International Finance Corporation
IFI	International Financial Institution
IISS	International Infrastructure Support System
IIWG	Investment and Infrastructure Working Group
IPPF	Infrastructure Project Preparation Facility
IsDB	Islamic Development Bank
KfW	<i>Kreditanstalt für Wiederaufbau</i>
MDB	Multilateral Development Bank
MED 5P	PPP Project Preparation Facility for the Southern Neighborhood
MIF	Multilateral Investment Fund
MOOC	Massive Open On-line Course
MW	Mega Watt
NEPAD	New Partnership for Africa's Development
NSG	Non-Sovereign Guaranteed
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	Public-Private Partnership
PPF	Project Preparation Facility
PPPIRC	PPP Infrastructure Resource Center
PRINCE2	Projects In Controlled Environments (project management certification)
PSP	Private Sector Participation
SG	Sovereign Guaranteed
SIF	Sustainable Infrastructure Foundation
SLOCAT	Sustainable Low-Carbon Transport
SOE	State-Owned Enterprise
UN	United Nations Organization
UNECE	United Nations Economic Commission for Europe
WBG	World Bank Group

I. Introduction

- 1.1 In September 2014, the Group of Twenty (G20) Development Working Group (DWG) agreed to request the Multilateral Development Banks (MDBs) to undertake several actions to maximize the effectiveness of project preparation facilities (PPFs) to leverage greater private sector investment in infrastructure.¹ In particular, MDBs were asked to take concrete, practical steps over several years to ensure that MDB-based PPFs collaborate to support governments' efforts to develop prioritized pipelines of economically viable and bankable infrastructure projects. These steps should build on the cooperation that already exists among the MDBs, and be paced in such a way as to allow for agreed approaches to be evaluated by the relevant institutions.
- 1.2 Against this backdrop, the G20 requested that "MDB-based PPFs that are focused on PPPs for infrastructure report on current approaches to project prioritization as a first step to moving towards government approved lists of prioritized projects."² In response to this request, the MDBs —African Development Bank (AfDB), Asian Development Bank (AsDB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank (IADB), International Fund for Agricultural Development (IFAD), Islamic Development Bank and the World Bank Group (IsDB)— present this paper. Its purpose is to highlight the shared principles and common approaches used by the MDBs to support efforts by their borrowing member countries (BMCs) to address their unique and evolving development challenges and, in particular, regarding meeting their needs for quality, inclusive, resilient and sustainable infrastructure. Each of these organizations, within their respective institutional mandates, share the common goal of poverty reduction and long-term, inclusive and sustainable growth and their work to support investment in infrastructure is guided by that goal. In doing so, these organizations leverage and catalyze public and private development finance as well as provide technical assistance, capacity development, learning opportunities and policy advice.
- 1.3 The paper presents a brief description of how MDBs work with their BMCs to identify, select, prepare and implement infrastructure projects and in particular, engage with the private sector in order to finance them. It then goes on to describe how PPFs function while providing some concrete examples of MDB collaboration. And finally, the paper outlines several actions that MDBs can take to further enhance their coordination and complementarity at the country level, and the overall effectiveness of the PPFs, and identifies several potential challenges in advancing with these actions. This paper has benefited from valuable feedback provided on an earlier draft by the members of the G20 DWG and the G20 Investment and Infrastructure Working Group (IIWG).

¹ See the *Report on Infrastructure Agenda an Response to Assessment of Project Preparation Facilities in Asia and Africa* of the G20 DWG, <https://g20.org/wp-content/uploads/2014/12/12%20Report%20on%20infrastructure%20agenda%20and%20response%20to%20assessment%20of%20project%20preparation%20facilities%20in%20Asia%20and%20Africa.pdf>.

² Final Terms of Reference (ToRs) of "MDB Reporting Approaches to Project Prioritization as a First Step to Moving Towards Government Approved Lists of Prioritized Projects", G20 Development Group Meeting of February 2-3, 2015. See <https://g20.org/g20-dwg-meeting-held-istanbul>.

II. Context

A. Shared Principles

- 2.1 Following the adoption of the Millennium Development Goals, the *Monterrey Consensus*, and the *Paris Declaration* of 2005, the MDB community, among other development practitioners, committed to enhancing **harmonization** and **collaboration** as they fulfill their respective institutional mandates and shared mission towards inclusive and sustainable growth and poverty reduction. With the *Global Partnership for Effective Development Cooperation*, the MDBs reaffirmed their commitment to work together as well as with local, regional and global partners from both the public and private sectors and civil society. This renewed MDB commitment to coordinate is evidenced by the roughly 100 separate MDB working groups active today —some of which were created formally by the MDB Heads to coordinate on a policy/strategic level, while others have emerged on a more *ad-hoc*, technical basis (e.g. project procurement and environment and social safeguards). By way of recent example, in addition to the present joint paper, the MDBs have actively engaged in preparing their shared vision of their role in helping developing countries to implement the Sustainable Development Goals (SDGs) by mobilizing both financing and technical assistance/advisory services.
- 2.2 In this regard, recognizing that financing the *Post-2015 Development Agenda* will far exceed the capacity of any one organization or group of organizations, the MDB community is committed to collective action to leverage significant resources and knowledge in finding innovative solutions for the development challenges facing the world today. One such challenge is the gap in the stock and quality of existing infrastructure, along with a rising demand for services. Developing countries now spend about US\$1 trillion a year on infrastructure. It is estimated that an additional US\$1 trillion to US\$1.5 trillion of annual investments in low and middle-income countries will be required through 2020 to meet the infrastructure demand from urban and rural industry and enterprises, as well as households. Electricity, water (including for irrigation), and transport are expected to account for the bulk of future spending needs.³ Making these kinds of investments lower carbon emitting will require an additional US\$260 billion per annum⁴ —which is much lower than the long-term global costs of unconstrained carbon emissions, estimated at 2-4% of global GDP per annum.
- 2.3 In addition to increased harmonization and collaboration, the MDBs share the following set of common principles which underpin the way they carry out their day-to-day work:
- **Country leadership/ownership:** in line with the *Paris Declaration*, keeping developing countries firmly in the driver's seat, listening to country clients and working with them to develop customized, realistic solutions to address their development challenges;
 - **Leveraging partnerships** with different stakeholders, for example, with representatives from the private sector and civil society in-country as well as within the broader development community, such as UN and bilateral agencies

³ See <http://www.worldbank.org/en/programs/global-Infrastructure-facility> and <http://data.worldbank.org/topic/infrastructure>.

⁴ Under the 2° Celsius increase scenario. See Christopher Kennedy and Jan Corfee-Morlot, "Mobilizing Investment in Low Carbon, Climate Resilient Infrastructure", *OECD Environment Working Papers No. 46*, pp. 13 and 37 <http://www.oecd-ilibrary.org/docserver/download/5k8zm3qxxmng.pdf?expires=1438038403&id=id&accname=quest&checksum=D22645A76D9FAABCAE7CC5373440761E>.

and philanthropic organizations; establishing effective partnerships with emerging development partners;

- Beyond harmonization, ensuring **complementarity** of their actions to reduce the burden and transaction costs of their BMCs and private sector clients. This is particularly true at the country level where MDBs share information about ongoing and planned work, and development results, both in project finance as well as knowledge solutions;
- **Knowledge-Sharing and Capacity-Building.** Leveraging their comparative advantage in terms of country- and region-specific knowledge, technical expertise and hands-on experience, the MDB community has long seen their mission as one beyond providing development finance, so as also to include the strengthening of governments' capacity to carry-out their development work; the coordination of development partners active in the country and emerging ones; the alignment of their financing and knowledge products with country priorities; and the transfer of knowledge to improve project design, including helping to develop and implement innovative solutions to development problems;
- **Thought Leadership.** MDBs are cooperating to face global challenges (such as climate change, and financial crises), providing counter-cyclical support to economies affected by adverse shocks, and helping countries implement actions for climate change adaptation and mitigation and disaster risk management;
- **Development Effectiveness.** Understanding what works and what does not and under which conditions is at the very core of the MDBs' mission. Their focus on measuring the **development effectiveness** of the interventions they support sets MDBs apart from other IFIs. And making those results known, to ensure transparency and accountability, as well as enhance learning/take corrective action and improve future project design and implementation, is at the heart of the MDBs' work; and
- Ensuring that MDB-supported interventions adhere to **social, economic and environmental sustainability standards** set out in their respective safeguards policies.

B. Setting Priorities – Country Strategy and Programming

- 2.4 To prioritize their work in a given country, MDBs also share **common approaches**. First, MDBs and the government counterparts of their BMCs agree on what the priority development challenges are, based on evidence-based diagnostics carried-out with national and local authorities and ongoing country dialogue. This work typically includes an assessment of the country's current and future macroeconomic outlook as well as sector-specific challenges and opportunities. The MDBs draw on lessons learned from the previous strategy period and on analytical and technical work conducted by the MDBs themselves, country counterparts and/or third party experts on a wide range of economic and social sectors, such as rural and urban development, health, education,

public finances and fiscal management, transportation, finance, and trade, and cross-cutting themes such as gender and inclusion, and environmental sustainability.⁵

- 2.5 Rooted in partner countries' national development plans as well as the MDBs' own institutional strategies and mandates determined by their respective shareholders, country strategies (CS) and country partnership frameworks (CPS) are constructed through a comprehensive country dialogue which involves not only national authorities, but also the private sector, civil society, academia and other development partners and stakeholders. In the formulation of these strategies/frameworks, the MDBs articulate how their programs complement one another in general terms. These documents also contain results matrices which include the information needed to monitor effectively the advances towards the achievement of the expected development results agreed upon with the clients.
- 2.6 When finalized, these strategies represent a formal agreement between the partner country and the MDB as to which development challenges, given the MDB's strategic priorities as well as operational expertise and technical knowledge, would be prioritized over the medium-term, typically aligned to the political cycle. These documents —some of which have been jointly prepared by more than one institution in a collaborative effort to maximize synergies and impact— are at the core of the MDB's ongoing dialogue with its public and private sector counterparts and guide the programming exercise, during which the country and MDB agree on a specific set of financial and non-financial products to be supported. Typically, this exercise is carried out annually and yields a list of priority projects (both the public and private), tentative funding amounts (and the sources of such funding). Each project is approved on a case-by-case. Given the need to respond to country development needs and private sector demand, it is possible for projects to be introduced in the pipeline outside the annual programming process at the request of (and in the case of private sector projects non-objection by) the corresponding country.

⁵ Moreover, these lessons are more and more written jointly. For instance, five joint Country Strategy evaluations (also known as Country Assistance Evaluations, or CAE) have been undertaken with other multilateral institutions to foster the sharing of experiences and evaluation harmonization. The Lesotho and Rwanda CAEs were prepared jointly with the African Development Bank (AfDB); the Jordan and Tunisia CAEs were prepared jointly with the Islamic Development Bank (IDB), and the Peru CAE was prepared in parallel with the Inter-American Development Bank. See Kyle Peters, Country Assistance Evaluation Retrospective An OED Self-Evaluation, p. 2 (<http://elibrary.worldbank.org/doi/pdf/10.1596/978-0-8213-6316-4>).

III. MDBs' Support to Help Countries Meet Infrastructure Needs

- 3.1 Since their inception, the MDBs have been instrumental in financing infrastructure projects throughout the developing world, ranging from large hydroelectric dams, urban/rural transportation systems and irrigation systems, to small, rural schools, agricultural markets and health clinics. For years, MDBs have promoted and participated in multilateral, bilateral and other financing arrangements for both their public and private sector projects. In doing so, MDBs work to ensure that they complement rather than crowd-out commercial lenders in financing infrastructure projects. **Co-financing** helps complete financing plans for large projects and leverages partnerships by mobilizing international support and concessional funding for high-priority projects. Co-financing can also replace part or whole of local counterpart financing when the borrowing member country faces fiscal limitations.
- 3.2 With regard to the growing role of the private sector in helping to fill the infrastructure gap in emerging markets, the MDBs have similarly **created and/or expanded their non-sovereign guarantee (NSG) operation capacity** to support the involvement of the private sector in infrastructure development. When providing direct financing to private infrastructure projects through NSG operations, the MDBs strive to: (i) ensure that projects can be sustainable and bankable by incorporating international best practices and by mitigating specific risks, and (ii) mobilize private sector financing through the banking and capital markets.
- 3.3 MDBs have been **catalyzing private financing** of infrastructure projects through several schemes. By directly engaging with commercial banks, mainly international ones, under the co-financing program (typically called A-B loans, where the A-loan is provided by the MDB and the B-loans are provided by commercial banks or other MDBs), MDBs provide infrastructure financing on commercial terms to public sector clients. MDBs are also active in promoting infrastructure financing by developing local capital markets, participating in bond issuances, providing guarantee and credit enhancement products, and supporting private equity infrastructure funds to attract a broader array of private investors, including institutional investors. By applying innovative means of financing, MDBs will continue to catalyze private financing to support governments' efforts to develop infrastructure.⁶ They will also seek innovative solutions for attracting private financing of infrastructure in the frontier areas —post-conflict countries, the remote rural areas and urban slums.
- 3.4 MDBs have been working to **leverage private sector finance** through: (i) upstream support, by helping developing countries to create an enabling environment to mobilize investment for example through regulatory reforms and the establishment of **public-private partnerships (PPPs)**,⁷ and (ii) downstream support, by the actual financing of such PPPs.

⁶ Launched at the G8 Gleneagles Summit in 2005, the role of the Infrastructure Consortium for Africa (ICA) is to help improve the lives and economic well-being of Africa's people through encouraging, supporting and promoting increased investment in infrastructure in Africa, from both public and private sources. Using its convening power, ICA acts as a catalyst —enhancing, accelerating and precipitating the development of Africa's infrastructure. ICA also works to help remove some of the technical and policy challenges and barriers to building more infrastructure and to better co-ordinate the activities of its members and other significant sources of infrastructure finance, such as China, India and Arab partners. ICA is not a financing agency but acts as a platform to catalyze donor and private sector financing of infrastructure projects and programs in Africa. ICA members include the G8 countries, the World Bank Group, the African Development Bank Group, the European Commission, the European Investment Bank and the Development Bank of Southern Africa.

⁷ Not just PPPs, but also in the case of IFAD, Public-Private-Producer Partnerships (4Ps) which highlight the importance of the small-scale producer (small holders and other rural producers) in these arrangements IFAD

- 3.5 One key informational tool, *Infrascope*, is an index used to assess country readiness for PPPs that has been commissioned by the MDBs, but conducted and evaluated by the Economist Intelligence Unit. Originally piloted in Latin America and the Caribbean in 2009 by the IADB's Multilateral Investment Fund (MIF), *Infrascope* was expanded to Asia and the Pacific in 2011 with the AsDB, and then in 2012 to Eastern Europe, the Middle East and North Africa with the EBRD, and Africa with the WBG in 2015. A summary of the *Infrascope* assessment process had previously been circulated to the G20 DWG and IIWG. In addition, the WBG is currently developing a tool for benchmarking the readiness of countries to undertake public-private partnerships, building on the work that the WBG has previously done on benchmarking public procurement systems (which has been submitted to the G20 Anti-Corruption Working Group).
- 3.6 A key component of MDB efforts to promote PPPs throughout the world has been their ability to create in-house capacity for **PPP transaction advisory services**. Since 2004, transaction advisory services provided by the International Finance Corporation (IFC) have successfully closed over 92 PPP transactions. Last year, AsDB established an Office of Public-Private Partnership to coordinate and enhance PPP operations across AsDB, including the provision of transaction advisory services to AsDB's developing member countries. Complementing such services, both the IADB⁸ and the AsDB provide early-stage capacity building to improve the regulatory and institutional environment, and project preparation support to improve project's quality and reduce risks, working both with Governments and the private sector.
- 3.7 In recent years, MDBs have played a critical role in promoting complementarity and **harmonized approaches to project preparation and supervision**. Examples include the use of standardized procurement policies and documents; the application of similar environmental and social safeguards policies; the requirements for *ex-ante* cost-benefit analysis, value-for-money analysis and project "executability" assessments; and concrete metrics to monitor and report on development effectiveness and —more recently— on project-related greenhouse gas emissions.
- 3.8 MDBs deploy several internal tools/mechanisms to systematically assess expected development benefits of the projects and rationale of MDB participation to ensure that projects financed by MDBs are highly developmental and achieve expected development results.⁹ MDBs have also been developing a set of **common core indicators** to measure the impact of private sector investment. In addition to setting common outcome indicators when a project is jointly financed, MDBs often coordinate their work by carrying-out joint analytical work.
- 3.9 MDBs also have been working to strengthen project preparation through specific or dedicated **project preparation facilities** (PPFs). PPFs fund project preparation in different stages (pre-feasibility, feasibility, and design) as well as technical cooperation to strengthen regulatory frameworks and build in-country capacity. Funded by MDB administrative resources, bilateral or multi-donor funds,¹⁰ PPFs can be thematic, sector and/or geographic specific, often using Board-approved operational guidelines that describe governance structure, eligibility and selection criteria, tailored to meet the

facilitates the interaction of rural producers with private sector through selected brokers to ensure stronger and more sustainable rural value chains.

⁸ IDB, through its Multilateral Investment Fund, has a PPP capacity building facility for early stage support in the PPP process.

⁹ The tools include economic analysis, result matrix with performance indicators, and project scoring matrix. MDBs track development results through annual monitoring exercise, mainly based on indicators, and carry out evaluations at project completion to assess achievement of development benefits of the projects and identify lessons learned.

¹⁰ Some examples include the Private Infrastructure Development Group's InfraCo Africa and InfraCo Asia.

particular circumstance of their purpose. PPFs can be either non-reimbursable or reimbursable,¹¹ and are typically accessed on a rolling basis as not all demand for MDB support, in particular from the private sector, and are able to be programmed at any given time during the year.

- 3.10 Other PPFs have pooled IFIs administrative and donor resources and are jointly managed by several IFIs. This approach has facilitated synergies, and exchange of information among PPF partners on PPP pipelines' development, as well as on actions required to improve PPP enabling environments at country level. These PPFs include the EU PPP Project Preparation Facility for the Southern Neighborhood (MED 5P), funded by the European Commission and led by the EIB in partnership with EBRD, AfD, KfW and the Union for the Mediterranean; and the Arab Financing Facility for Infrastructure (AFFI) Technical Assistance Facility, funded by the WBG, IsDB, EIB, IFC and the AFESD.
- 3.11 Several of the MDBs have had regional or sub-regional PPFs in place for many years — for example, the IADB's *InfraFund*, or the New Partnership for Africa's Development Infrastructure Project Preparation Facility (NEPAD-IPPF)— while others have been established more recently, such as EBRD's Infrastructure Project Preparation Facility (IPPF), AsDB's Asia Pacific Project Preparation Facility (AP3F) and the World Bank Group's Global Infrastructure Facility (GIF), on which several MDBs serve as Technical Partners, enabling collaboration on both technical and funding aspects of infrastructure development. There are also several instances of single country PPFs also having been established with the assistance of the MDBs, for example, the IADB and the IFC partnered with Brazil's national development bank, BNDES to set up the PSP Development Fund aimed at enhancing private sector participation in infrastructure projects in Brazil.
- 3.12 The AfDB's *Africa50* initiative provides project preparation capacity within a development-oriented, yet commercially-operated innovative entity. The innovativeness of the *Africa50* lies in its integrated approach that is being a "one-stop-shop" which combines an early stage project preparation and development work with long-term debt funding. Please see Annex I for a brief description of the MDB-supported PPFs.
- 3.13 Not only do these PPFs help to facilitate increased infrastructure development, they also focus on improving the **quality of the infrastructure** they finance. Quality in this case is defined not only in terms of ensuring that the project is economically and financially viable¹² and fully complies with MDB environmental and social safeguards policies, but also is aligned to the shared country and MDB development priorities with the MDB's development effectiveness mandate at the core. The emphasis on quality, in turn, is important for attracting additional financing.
- 3.14 In addition to financing project preparation, MDBs also provide **knowledge and guidance**. The International Infrastructure Support System (IISS) is a common platform which most MDBs are jointly implementing. The pilot platform is aimed at supporting public sector agencies by offering them general or sector-specific infrastructure project templates in a secure, multi-user standardized online workspace. Public sector agency teams can use the platform both as a guide to their preparation activities and a project management tool. The goal is to raise the quality, consistency

¹¹ The latter applies mainly for projects involving private investments, in this case, the private party is responsible for reimbursing the project preparation costs plus a success fees defined to pursue a long term financial sustainability of the facility.

¹² Islamic finance refers to the means by which corporations in the Muslim world, including banks and other lending institutions, raise capital in accordance with Sharia, or Islamic law. It also refers to the types of investments that are permissible under this form of law. Central to Islamic banking and finance is an understanding of the importance of risk sharing as part of raising capital and the avoidance of *riba* (usury) and *gharar* (risk or uncertainty).

and transparency of the public sector's project preparation and therefore, improve the interface with financiers and funders such that a better range of public, PPP and private funding options can be secured. This initiative was pioneered by the AsDB and is now led by a MDB-appointed implementation agency, the Sustainable Infrastructure Foundation of Switzerland, with MDB involvement coming through the SIF's Advisory Committee. The IISS initiative involves MDBs as funding and technical partners as well as leading private sector investors and operators. The platform is currently running several pilots in Africa, Asia and Latin America and the Caribbean, and is expected to go live by the end of 2015.

- 3.15 Similarly, the World Bank has recently developed a **Project Prioritization Toolkit**,¹³ designed to assist government decision-makers with the optimal ranking of potential infrastructure projects. The aim of this initiative is to design a simple and practical tool for more objective decision-making that combines social and environmental indicators with economic and financial outcomes, and takes into account budget constraints. This toolkit is intended to apply to all tiers of government by providing decision-makers with a visual interface to assist in rebalancing sector budget allocations. The intention is to make this toolkit available to all MDBs, with a view to working collaboratively to refine the toolkit as experiences are gained with its application in various countries. Likewise, EIB's European PPP Expertise Center (EPEC) developed a project preparation checklist for the Western Balkans.
- 3.16 Drawing on their years of operational experience and applied research, **knowledge generation and sharing, and in particular knowledge brokering**, continue to be central to MDBs' activities (see Annex II). By helping to connect both researchers and practitioners from around the world, identifying and disseminating best practices in areas such as standard documentation covering project identification, preparation, monitoring and supervision, procurement and capacity-building to improve institutional arrangements, the MDB community adds significant value to the efficiency of infrastructure services delivery. In that regard, the MDB community commends the G20 in highlighting the importance of a knowledge sharing platform for infrastructure and believes that the recently-created Global Infrastructure Hub (GIH) will serve as an important vehicle for practitioners and policy makers the world over to share lessons learned and good practices. In particular, the ability to share real-world solutions on a peer-to-peer basis will be an aspect that the GIH should foster.
- 3.17 Once the projects are approved, all MDBs **actively support client countries during project execution**. Not only does MDB project supervision —including physical presence on the ground by MDB staff— help Executing Agencies manage risk, support capacity development and monitor the development results they hope to achieve; it also helps to ensure compliance with environmental and social safeguards policies, and fiduciary policies and guidelines. If a project is being supported by more than one MDB, typically joint missions are carried-out and reporting requirements are harmonized. In addition, MDBs also provide governments with technical support to assist them in ensuring a project implementation. For example, in the case of PPPs —which require intensive management by governments— MDBs help both during preparation and throughout execution.
- 3.18 And finally, to determine to what extent development objectives are actually achieved, and to detect and address unintended consequences, MDBs support or directly prepare completion reports and impact evaluations of the projects they finance. Impact evaluations shed light on why programs work and how to make them better, and as

¹³ This toolkit forms part of the deliverable on MDB s Common Approach to Project Prioritization.

such, are valuable tools to inform the design of future development interventions. Given the costs involved, impact evaluations are typically carried-out on selective basis.

IV. Going Forward

- 4.1 Looking ahead, and building on their financial, institutional and intellectual capabilities as well as their individual and collective comparative advantages, the **MDBs reaffirm their commitment to promoting long-term investment financing to address developing countries' infrastructure needs**, in accordance with the mandates, expertise, and resources of each of their respective organizations. To that end, the MDBs agree to ramp up their efforts to work together with countries and regions/sub-regions, including co-financing, to: i) **prioritize** their investment needs in infrastructure based on sound empirical evidence;¹⁴ ii) ensure an **enabling environment** for infrastructure investments; iii) **mobilize finance** from a variety of sources and instruments, in particular from the private sector; and iv) ensure the **development effectiveness** and sustainability of these interventions, including the use of common indicators where possible. Yet this agenda is not without its challenges.
- 4.2 With respect to mobilizing finance, MDBs are collectively and individually exploring how to make best use of their business model to increase available funds. One such initiative involves **exposure exchange agreements** under which MDBs free up space for additional lending to country clients currently at their maximum limit in one MDB by spreading the risk exposure across other MDBs. Other ways to expand their balance sheets include combining and leveraging the concessional windows in innovative ways without reducing funding for the poorest countries. Specific examples of these innovations include WBG's *Margins for Maneuver* initiative and discussions on leveraging capital from IDA (the International Development Association) for non-concessional loans. Likewise, the AfDB is opening its non-concessional window to the poorest countries; the AsDB is combining the Asian Development Fund (ADF) with its balance sheet; the EBRD is establishing a new vehicle to allow institutional investors to participate in EBRD's equity pool; and the IDB Group (IDBG) is consolidating its private sector activities, supported by a US\$2 billion capital increase and a proposal to establish an Asset Management Company to channel institutional investor funds; the EIB is further enhancing its use of risk-sharing instruments blending concessional and non-concessional resources to bring projects to a credit level acceptable to private investors. Of course, innovations such as these must have the approval by the respective MDB shareholders.¹⁵
- 4.3 Increasingly the challenge for infrastructure investment in the developing world is not only related to the availability of finance —though this is not insignificant— but also the lack of appropriately packaged and bankable projects. **For a project to be successful, an adequate legal and regulatory environment is required, and PPP projects must be structured in such ways that the risk allocation is acceptable to the public sector as well as private investors and lenders and that the financing modalities ensure alignment of interests.** These issues become magnified with large-scale, complex multi-country “transformative” public projects,¹⁶ especially because they present considerable challenges in terms of reconciling different legal

¹⁴ Prioritizing projects in this context should take into account the expected impact on areas and sectors where investment gaps are high and where infrastructure can make a major difference. In this regard, large-scale infrastructure projects need to be complemented by smaller-scale infrastructural investments that reach the “last mile” and that enable better rural-urban connectivity, for instance.

¹⁵ One of the proposals on the table is the possibility of securitising later phases of projects in MDBs' infrastructure portfolio which could allow institutional investors to take on lower-risk and lower-return assets and MDBs to reinvest in the higher risk project-development phase where there is a major bottleneck, as well as in construction.

¹⁶ An update on the transformative projects identified under the French presidency of the G20 will be provided separately.

systems and approaches, international agreements and regulations, coordination of local processes, and the scale of human and financial resources required.

- 4.4 A key element of this agenda going forward will involve **deepening our partnership with other international financial institutions** and the wider community —existing and emerging partners such as the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB),¹⁷ philanthropic organizations, and institutional investors and pension funds— to develop the market for private infrastructure finance in both urban and rural areas and deepen their support to countries for the development of investment opportunities both within and between them. And like any new partnership or venture being forged, first understanding how each operates and what common goals and objectives each pursue are important steps that take time. In that regard, in addition to their thematic and country/regional specialization, **MDBs’ reputation as honest broker and ability to convene a variety of development partners are important comparative advantages.**
- 4.5 Joint efforts to carry-out sector diagnostics and due diligence, prepare bankable projects, and strengthen in-country capacity to effectively plan, budget, implement, maintain, monitor and evaluate infrastructure projects are additional areas the MDBs can work together in direct support of their client countries. Such joint work, nevertheless, typically requires additional planning and advance time on the part of the MDBs in order to coordinate effectively. Furthermore, changing internal business practices requires the buy-in of those responsible which may prove challenging.
- 4.6 Moreover, **MDBs will continue to assist their member countries to create an enabling legal and regulatory environment for infrastructure investment.** In addition to working with partner countries to reduce regulatory uncertainties that can limit the generation of viable projects, MDBs will also help to strengthen country systems and assist governments at both the national and subnational levels in fiscal management, domestic resources mobilization, tackling illicit flows, and creating an adequate investment climate for infrastructure development in both urban and rural areas. To this end, they will continue to support and engage in partnerships, platforms and dialogues for South-South and broader cooperation and knowledge exchange across national, regional, bilateral and multilateral development institutions, civil society organizations, and the public and private sectors. In fact, MDBs already coordinate with each other through several policy, technical and financial working groups, both formal and informal, that promote greater effectiveness and efficiency across their development programs—including jointly coordinated project preparation facilities the PPP Knowledge Lab, the PPP Certification Program, *Infrascope*, and the IISS.
- 4.7 Another key area where MDBs can contribute is in the **identification of risk management and mitigation approaches to infrastructure investment** in developing countries. For example, a critical risk-mitigant will be to determine investment readiness of public entities (either line ministries or State-owned Enterprises), and support needed to enable them to become credible counter parties. Fundamental to any risk mitigation and management strategy will be to ensure that state entities or government bodies have an appropriate credit standing in so far as they are likely to be the off-takers of PPP agreements. Part of this implies ensuring that the right sector issues —such as establishing principles for sector cost recovery, consumer protection, etc.— are in place. Within public-private contracts, it will be necessary to develop a systematic approach to backstopping government obligations in a way that does provides private lenders and sponsors the necessary comfort, but does not create

¹⁷ Formerly known as the BRICS Bank, a multilateral development bank operated by Brazil, Russia, India, China and South Africa.

unnecessary fiscal constraints, such as guarantees, yet is progressive in its approach (*i.e.* develops a mechanism by which the private sector progressively takes on more risk). Furthermore, MDBs should help in developing a diligent categorization of direct and contingent risks and liabilities that arise from PPP engagements. At the core of developing these solutions should be a consistent environmental and social risk mitigation strategy aligned to the *Equator Principles* already used by major—but not all—commercial banks. MDBs can, as appropriate, help design and even fund, public contributions into PPPs in such ways as to enhance the project’s overall bankability and reduce its risk profile.

- 4.8 The MDBs are currently exploring ways to **further enhance the way they coordinate their project preparation** to facilitate more efficient and effective public and private investment in infrastructure. One example could be for MDBs to develop some general PPP strategic guidelines that would encourage a more systematic approach to PPPs in general and for the PPFs themselves—such as reducing risks on conflict of interests with private parties engaged in early project preparation phases, or the dealing of non-solicited proposals. Another example would be for MDBs to focus on key transformational projects. Transformational projects would be defined as projects that are big in nature and have long gestation periods, or such projects which could be catalytic in nature by developing local markets—both from investors and developers perspective—and by creating “samples” that could be replicated with little future support by MDBs. However, such efforts should not be pursued at the cost of the delivery of smaller infrastructure projects that can be delivered faster and will, therefore, generate more immediate results. In this regard, the MDBs collectively acknowledge the need to strengthen risk management and mitigation provisions in the area of infrastructure investment, especially when such investments involve PPPs and/or direct financing of the private sector.¹⁸ Once again, changes to operational policy and/or strategic direction in the way MDBs work may take time. In addition to requiring shareholder approval, any such change in organizational procedures needs to be fully internalized by MDB staff.
- 4.9 MDBs are committed to doing more in terms of **sharing the experiences, lessons learned and best practices** acquired through their work. This also involves enhancing how effectiveness is measured in MDB-supported interventions to continue to learn from what works and what does not. As stated earlier, MDBs look forward to working with the GIH to promote learning about effective infrastructure development the word over. To that end, a *Memorandum of Understanding* has already been signed between the GIH and the World Bank Group and IMF, and the IADB is currently in the process of doing so.
- 4.10 Furthermore, building on the existing multilateral collaboration on infrastructure, MDBs are committed to hosting a **global infrastructure forum** that would meet periodically to “improve coordination among established and new infrastructure initiatives, multilateral and national development banks, UN agencies, and national institutions, development partners and the private sector. It will encourage a greater range of voices to be heard, particularly from developing countries, to identify and address infrastructure and capacity gaps in particular in least developed countries, landlocked developing countries, small island developing states and African countries. It will highlight opportunities for investment and cooperation, and work to ensure that

¹⁸ This to include, for example: *ex-ante* assessments of possible social, economic and environmental risks in terms of impacts on local livelihoods, human rights, equality/equal access and entitlements (over land, water, etc.); stronger mechanisms to monitor *ex-post* social and environmental impacts; and stronger mechanisms to take remedial action in case of evidence of negative social and environmental impact.

investments are environmentally, socially and economically sustainable.”¹⁹ In this way, the global infrastructure forum will provide an opportunity to streamline existing fora/initiatives and provide a more coordinated approach to facilitate engagement with key stakeholders.

- 4.11 MDBs will continue to **ensure developing country leadership and ownership**, while strengthening the role of countries themselves in ensuring greater complementarity on the ground—upstream work and financing. MDBs will also do more to ensure that infrastructure investments are tailored to address the unique characteristics among and within countries —taking into account their specificities, while ensuring alignment with effective practices— and that they not only respond to a real demand expressed by governments but also local communities, particularly the poor and vulnerable in both rural and urban areas that are affected by/involved with MDB-supported infrastructure projects. To that end, MDBs reaffirm their commitment to carry-out effective consultation processes across stakeholders and make available information regarding their PPFs, the projects they support as well as the development results they help to achieve.
- 4.12 Filling the world’s infrastructure gap will require even greater collective action and partnership. **Developing countries must necessarily continue to be in the driver’s seat**, leading the development process by ensuring that the operating environment is conducive to ensuring the needed investment in infrastructure, both from public and private sector sources and that the benefits of such infrastructure are sustainable. Ultimately, MDB counterparts in each country are best positioned to: i) prioritize their infrastructure investment; and ii) ensure a coordinated approach among MDBs and other development actors on the ground, both in terms of funding as well as analytical work and technical assistance.

¹⁹ Final outcome document *The Addis Ababa Action Agenda of the Third International Conference on Financing for Development*, July 2015 (N1521991, paragraph 14, p. 6), http://www.un.org/ga/search/view_doc.asp?symbol=A/CONF.227/L.1, and <http://www.un.org/esa/ffd/ffd3/press-release/countries-reach-historic-agreement.html>.

ANNEX I

MDB Partnering to Build a Better World: Project Preparation Facilities at a Glance

[Table on next pages]

Project Preparation Facilities at a Glance	INFRAFUND (2006)	AQUA FUND (2006)	FIRII	PSP BNDES	GIF (pilot phase)	IPPF
Donors/Source of funds	IDB ordinary capital	IDB ordinary capital	IDB ordinary capital	BNDES, IDB, IFC	China, Canada, Australia, Singapore, World Bank	EBRD's Shareholders Special Fund drawing on net capital reserves
Capital & Results	US\$ 50M in pipeline US\$ 83M disbursed 140+ projects US\$ 6 B IDB loans	US\$ 25M in pipeline US\$ 50M disbursed 90+ projects US\$ 5 B IDB loans	US\$ 22M in pipeline US\$ 30M disbursed 40+ projects US\$ 5 B IDB loans	US\$ 12 M capital available 11 projects US\$ 4 Bi private sector mobilized	Capital available US\$ 80M 11 potential projects (pilot phase)	Capital available US\$ 50M Pipeline: up to 9 PPPs; up to 15 public sector projects
Facility type	Non reimbursable	Non reimbursable	Non reimbursable	Reimbursable	Reimbursable	PPP Window: Reimbursable; Public Window: Non reimbursable
Type of Projects	Pure Public, Pure Private PPPs	Pure Public, Pure Private PPPs	Pure Public, Pure Private PPPs	PPPs	PPPs	Both PPPs and public (equal split between two Windows)
Stages of project preparation typically covered	<ul style="list-style-type: none"> •Institutional •Regulatory •Technical studies •Environ/social •Pre-feasibility •Feasibility studies 	<ul style="list-style-type: none"> •Institutional •Regulatory •Technical studies •Environ/social •Pre-feasibility •Feasibility studies 	<ul style="list-style-type: none"> •Institutional •Regulatory •Technical studies •Environ/social •Pre-feasibility 	<ul style="list-style-type: none"> •Feasibility studies •Financial structuring 	<ul style="list-style-type: none"> •Institutional •Regulatory •Technical studies •Environ/social •Pre-feasibility •Feasibility studies •Financial structuring 	<ul style="list-style-type: none"> •Institutional •Regulatory •Technical studies •Environ/social •Pre-feasibility and Feasibility •Financial structuring and transaction advisory • Monitoring support of PPPs
Objective/additionality	Increase quality of infrastructure projects in LAC Foster private participation innovative mechanisms, risk sharing	visible projects (pilots) knowledge transfer	Trade integration Upstream (regulatory and institutional)	Innovative sectors or innovative contracts in Brazil	Complex projects (transnational, involving several partners) WW.	Increase efficiency, quality and replicability of infrastructure project preparation of both PPPs and public sector project types
Eligibility Criteria	link IDB Infrastructure strategy IDB Country member	Water sector- Millennium development goal IDB Country member	contribution to regional and international trade integration IDB Country member	Brazil	Emerging Markets	All transport and municipal infrastructure sectors. Business case justification
Prioritization Criteria	sustainable transport Link IDB loan Link Country Strategy private participation	rural and urban areas Link IDB loan Link Country Strategy	Trade integration Link IDB loan Link Country Strategy	Innovative practices or sectors National and subnational support	Trade enabler Climate Complex nature	Commercialized projects structures 50 per cent of IPPF resources to go toward PPPs
Sectors typically covered	Transport Energy	water solid waste	Upstream activities on regional integration integration/multinational projects	Health Education transport	Transport Energy Water	Transport (Roads, Rail, ports, airports) Municipal infrastructure and services (urban transport, water/waste water; solid waste; district heating/cooling) Facilities management for social infrastructure
Governance	Internal IDB multi-sectoral committees	Internal IDB multi-sectoral committees	Internal IDB multi-sectoral committees	Oversight committee equal vote (IDB, BNDES, IFC)	Governance Committee (Funding, Technical partners and Recipient countries)	EBRD Board of Directors
Geographical Coverage	IDB Country members	IDB Country members	IDB Country members	Brazil	Worldwide	All EBRD Countries of Operation
Project Generation	Country Strategy IDB Country dialogues	Country Strategy IDB Country dialogues	Country Strategy IDB Country dialogues	Link BNDES portfolio Subnational dialogue BNDES/IDB/IFC	WW Technical partners and government request	EBRD banking teams

Project Preparation Facilities at a Glance	ICA	AP3F	NEPAD-IPPF	MED 5P	Arab Financing Facility for Infrastructure (AFFI) Technical Facility	Africa 50 Initiative
Donors/Source of funds	G8, World Bank, AfDB, European Commission, EIB, Development Bank of South Africa	Japan, Canada, Australia, AsDB	AfDB, Spain, Germany, UK, Norway, Denmark, Canada	EIB, EBRD, European Union, European Commission, AfDB KfW, Union for the Mediterranean	World Bank, IsDB, EIB, IFC, AFESD	AfDB
Capital & Results		Capital available: US\$ 74M Operations to commence in 2H 2015	Capital available: US\$42M in grants			
Facility type	Innovative financing platform	Reimbursable and Non-reimbursable		Grants		
Type of Projects	Public Private	PPPs				
Stages of project preparation typically covered		<ul style="list-style-type: none"> Capacity development Institutional, Policy & Regulatory reforms Technical studies Environ/social Pre-feasibility and Feasibility Financial structuring and transaction advisory Project placement 	<ul style="list-style-type: none"> pre-feasibility, cost-benefit analysis, environmental and social sustainability, project definition, detailed design, pricing, marketing, and downstream financing (including PPP design arrangements) 			<ul style="list-style-type: none"> Project preparation
Objective/additionality	Convening platform for catalytic finance	New investments (and existing projects depending on their incremental development impact) but also refurbishment				
Eligibility Criteria	Africa	Consistent with AsDB developing member countries Country Partnership Strategy	African developing countries			
Prioritization Criteria	Green infrastructure	Climate resilience Sustainable development Regional economic integration	Priority is given to projects that can secure downstream financing from public and private sources			
Sectors typically covered	Energy	Transport (Roads, Rail, ports, airports) Energy Water / Social	Energy Water resources Transport and ICT			
Governance		Fund Program Council (Donors & AsDB), Steering Committee & Working Group (AsDB)				
Geographical Coverage	Africa	Asia, Pacific	Africa	Middle-East and North Africa (MENA), Mediterranean countries	MENA	Africa
Project Generation		Country Partnership Strategies, Regional Departments, Office of Public-Private Partnership				

ANNEX II

MDB Knowledge-Sharing in Infrastructure Development

PPP Reference Guide: A joint venture of the WBG, AsDB, IADB's MIF, and the Public-Private Infrastructure Advisory Facility (PPIAF). Version 2 of the Reference Guide was published in July 2014. The IADB has also translated this document into Spanish to make it more accessible in Latin America and the Caribbean.

The PPP Knowledge Lab (www.pppknowledgelab.org): A curated, comprehensive and easy-to-use online resource on public-private partnerships. The PPP Knowledge Lab is built upon the PPP Reference Guide. It was developed with the collaboration of the WBG, the AsDB, the IADB MIF, the EBRD, the IADB and PPIAF.

The PPP Infrastructure Resource Center (PPPIRC) Website (www.worldbank.org/pppirc): This very popular public website provides a key resource for PPP practitioners seeking guidance and tools on legal issues relating to PPPs. The PPPIRC provides free, web-based practical guidance on PPP transactions, and examples of good practice in the form of sample project agreements, laws, regulatory instruments, checklists, risk matrixes and consultant terms of reference, together with links to other useful resources, covering all of the main infrastructure sectors. It is hosted by the World Bank and is financially supported by the PPIAF, the World Bank, the IADB's Multi-lateral Investment Fund (MIF), and by the African Legal Support Facility (AFLSF) of the AfDB.

Global PPP Certification: The WBG has recently signed an agreement with APM Group, a leading organization in the field of credentialing in areas such as project management (PRINCE2) and related areas, to develop and run a global scheme for credentialing PPP practitioners. The program is analogous to the CFA credential. A Consultative Committee has been set up to steer the program. The committee includes the World Bank Group, the Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank (through its Multi-lateral Investment Fund), Islamic Development Bank and PPIAF.

PPP Days: This major conference, which was held at EBRD Headquarters in London on June 16-17, 2015, featured high-level panels of public and private sector PPP decision-makers from the world of infrastructure finance, consulting, and advisory work. PPP Days 2015 was the fourth conference in support of global PPPs since 2006 with active MDB involvement. Approximately 20 countries from all regions presented PPP projects to investors. Multiple sessions covered the primary issues affecting PPPs, such as project preparation, widening the investor base through the use of credit enhancement instruments and guarantees, risk mitigation, Value for Money, and fiscal transparency and accountability for PPP programs. The 2015 version of PPP Days was hosted by the EBRD, and co-organized with the World Bank Group, the EIB, the Asian Development Bank, the Inter-American Development Bank, the Islamic Development Bank, and the United Nations Economic Commission for Europe (UNECE).

MDB Sustainable Transport Policy Agenda and SLOCAT (Sustainable Low-Carbon Transport) Seminar: Since 2013, the MDBs have held meetings in the form of seminars where all major IFI infrastructure senior managers meet to discuss progress related the Rio+20 MDB Commitment on Sustainable Transport. The most recent meeting, held on March 23 at EBRD, stems from the Joint Statement announced in June 2012, committing all MDBs to a pledge to provide US\$ 175 billion in sustainable transport lending up to the period of 2022. Several MDBs

have now developed and adopted a new methodology for ranking all projects approved in the sector according to their degree of sustainability. Within this context, EBRD hosted, with active participation from EIB, WBG, IADB, ADB and IsDB, a seminar of global experts organized by the SLOCAT organization on March 25, 2015 to bring together experts from the private and public sectors to discuss financing mechanisms in support of sustainable transport. These activities provide key inputs from the transport sector from the MDBs for the the Financing for Development Conference (FfD) in Addis Ababa and the COP 21 in Paris.

Asia PPP Practitioners' Network (APN): Since 2011 AsDB, the Korea Development Institute, Korea's Ministry of Strategy and Finance, and the World Bank Group have collaborated to bring Asia's PPP practitioners together to network and discuss the issues and challenges of implementing PPPs. Annually, the training program is tailored to reflect current development and challenges and possible solutions to address them. In 2013, APN convened the first Heads of PPP Unit Forum for Asia where issues related to the status of global PPP market, functions of PPP units and ways to enhance regional PPP unit network were discussed. Some of the leading PPP Units of the world have participated in the knowledge sharing event, including Infrastructure Australia, PPP Canada and Partnerships UK.

Infrastructure Development – An Economic Performance Booster: A one-day event organized jointly by the EBRD, the Turkish Presidency of the G20 and the Reinventing Bretton Woods Committee on Wednesday 13 May 2015 will focus on how to increase private sector involvement in the delivery and financing of infrastructure investment in the EBRD region. Dedicated sessions will discuss what institutional capabilities are required to deliver infrastructure PPPs; what do institutional investors require to commit substantial investment; and how to ensure that scarce public resources are spent on sustainable infrastructure that can deliver long-term green growth objectives. The event is targeted at infrastructure professionals, including market participants, government policy-makers, regulators and capital market investors.

Knowledge Management: MDBs also increasingly cooperate in knowledge management. For example, in 2013 the AsDB carried out a synthesis study from 14 knowledge management evaluations and related report of six international financial institutions. The objective was to draw lessons for more effective knowledge management undertaken in those institutions and help IFIs realize the goal of becoming better knowledge institutions.

[Overview table in next pages]

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Knowledge Initiatives and Events	Project Prioritization Toolkit	PPP Knowledge Lab	EPEC	Global Infrastructure Hub (GIH)	PPP Days	SLOCAT	Infrastructure Development - An Economic Performance Booster
Donors/Source of funds	World Bank	World Bank	EIB	G20	EBRD, World Bank, EII, AsDB, IDB, IsDB, UNECE	MDBs	EBRD, Turkish G20 Presidency
Capital & Results						US\$157 Billion up to 2022	
Facility type	Toolkit, visual interface to rebalance sector budget allocations	Knowledge, technical expertise and innovation	Checklist	Knowledge exchange platform	Seminar	Seminar	Seminar
Type of Projects		PPPs	PPPs				PPPs
Stages of project preparation typically covered		<ul style="list-style-type: none"> -Identification of knowledge -Surfacing of knowledge -Curation of knowledge 	<ul style="list-style-type: none"> -Project preparation checklist 				
Objective/additionality	<p>Link of social/environmental indicators with financial outcomes and budget constraints</p> <p>Knowledge sharing</p>	PPP knowledge and innovation		Knowledge sharing	Knowledge sharing	Knowledge sharing, fundraising through MDB pledges	Knowledge sharing
Eligibility Criteria	Government decision makers	World Bank client countries	Western Balkan countries				
Prioritization Criteria						Sustainable logistics	
Sectors typically covered						Transport	
Governance		Housed within WBG's PPP CSA (Public-Private Partnership Cross-Cutting Solutions Area)					
Geographical Coverage	Global	Global	Western Balkans	Global	Global	Global	Global
Project Generation							