OECD Development Co-operation Working Papers No. 19

Official Support for Private Sector Participation in Developing Country Infrastructure

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https://dx.doi.org/10.1787/5jz14cd40nf0-en

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THE DEVELOPMENT ASSISTANCE COMMITTEE:
ENABLING EFFECTIVE DEVELOPMENT

Official Support for Private Sector Participation in Developing Country Infrastructure

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OECD Development Co-operation Directorate

OECD DEVELOPMENT CO-OPERATION WORKING PAPER 19

Authorised for publication by Jon Lomoy, Director, Development Co-operation Directorate

OECD
BETTER POLICIES FOR BETTER LIVES

July 2014

Abstract

The **objective** of this study is to take stock of support by bilateral and multilateral donors for private sector participation in developing country infrastructure. It tries to draw out trends, opportunities and challenges, collective activities to address them, and possible further actions for the Development Assistance Committee (DAC). The exercise tries to contribute to the aim of using development co-operation more strategically in leveraging other development related flows. The **methodology** involved research on 22 donor policies and institutions, as well as data analysis of the DAC's Creditor Reporting System. The **results** of the study indicate that official development finance (ODF) for infrastructure is increasing, with a sizable proportion disbursed to support the private sector directly, mostly through loans and equity by bilateral and multilateral development finance institutions (DFIs). However, almost 70% is directed to infrastructure in upper middle income countries, where the domestic financial sector might be relatively developed, which raises the question of additionality of official support. In terms of sectors, 60% of support to the private sector goes to energy, particularly to renewables, such as hydro, wind, solar, and geothermal energy. This is followed by transport, telecommunications, and water. Export credit agencies also provide significant amount of financing to developing country infrastructure. Donors further provide about 15% of funding to help improve the enabling environment for investment by building the capacity of partner government ministries, public-private-partnership units, regional organisations, or local administrations. **Conclusions** include the need for better co-ordination among various agencies or units involved in supporting infrastructure development within donor countries or multilateral institutions as well as the establishment of a transparent monitoring mechanism of DFI activities to ensure additionality and development effectiveness.

The Donor Profiles at a Glance of the 22 donors in this study can be found at: http://www.oecd.org/dac/stats/documentupload/DonorProfilesInfra.pdf.

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ACKNOWLEDGEMENTS

The authors would like to thank: the interns, Leonor Gonzalez-Koss and Milosz Wiatrowski, for the extensive research, data analysis, and compilation of the donor profiles; Olivier Bouret for the verification of data; Claudia Schmerler, Cecile Sangare, Mariana Mirabile, Megan Kennedy-Chouane, and Jens Sedemund for their comments; as well as Katie Russell for the meticulous formatting. Furthermore, this report would not have been made possible without the significant inputs and factual checking carried out by numerous officials of bilateral and multilateral organisations covered in this study.

TABLE OF CONTENTS

ABBREVIATIONS 5

BACKGROUND AND INTRODUCTION 7

OFFICIAL SUPPORT FOR PRIVATE SECTOR PARTICIPATION IN DEVELOPING COUNTRY INFRASTRUCTURE 9

I. Overview of Official Support to Infrastructure 9
II. Relevant Institutions 13
III. Geographical and Sectoral Distribution 19
IV. Types of Support and Instruments 25
V. Enabling Environment and Project Preparation Facilities 28
VI. Accountability, Transparency, Reporting and Measurement 32
VII. On-Going Activities and Remaining Issues 35

ANNEX PROJECT PREPARATION FACILITES 37

BIBLIOGRAPHY 41

Tables

Table 1. Institutions promoting private investment for infrastructure 14
Table 2. Examples of infrastructure projects involving DAC members official export credits in LICs 17

Figures

Figure 1. ODF to infrastructure in 2011 (in USD billion) 10
Figure 2. Share of ODF for infrastructure in total sector-allocable ODF in 2011 11
Figure 3. Amount of support to private investment in infrastructure in 2011 (in USD billion) 12
Figure 4. Share of support to private investment in infrastructure within total ODF for infrastructure in 2011 12
Figure 5. Regional distribution of support to private investment in infrastructure 20
Figure 6. Income level distribution of support to private investment in infrastructure 20
Figure 7. Top ten recipients of support to private investment for infrastructure 21
Figure 8. Distribution of the financing of all infrastructure projects between donors and domestic lenders in India, Brazil and Turkey (2008-2012) 21
Figure 9. Sectoral distribution of support to private investment in infrastructure 24
Figure 10. Distribution of support within energy 24
Figure 11. Income level distribution to support to the enabling environment 29
Figure 12. Sectoral distribution to support to the enabling environment 29

Boxes

Box 1. Examples – Policies on Private Sector Participation in Infrastructure 13
Box 2. Examples – Multi-donor Programmes to Support Private Sector Participation 16
Box 3. Examples – ECA Activities in Developing Country Infrastructure 17
Box 4. Examples – Inter-Agency Co-ordination for Private Participation in Infrastructure ... 18
Box 5. Examples – Co-operation among DFIs 19
Box 6. Examples – Geographical Focus 22
Box 7. Examples – Energy and Transport 24
Box 8. Examples – Financial Instruments 26
Box 9. Examples – Long-Term Investment and Islamic Finance 27
Box 10. Examples – Support to the Enabling Environment 30
Box 11. Examples – Project Preparation Facilities and Platform 31
Box 12. Examples – Lessons Learned from Domestic Experience 32
Box 13. Examples – Evaluation Systems and Public Scrutiny 34
Box 14. Examples –Reporting to the CRS 35

ABBREVIATIONS

AfDB	African Development Bank
AFFI	Arab Finance Facility for Infrastructure
AFP	African Financing Partnership
AGID	Advisory Group on Investment and Development
AICEP	Associação Internacional das Comunicações de Expressão Portuguesa
AsDB	Asian Development Bank
BIO	Belgian Investment Company for Developing Countries
BOO	Build-own-operate
BOT	Build-own-transfer
BTO	Build-transfer-operate
CESCE	Compañía Española de Seguros de Crédito a la Exportación
CDC	CDC Group
CIF	Climate Investment Funds
COFACE	French Export Credit Agency
COFIDES	Spanish Development Finance Company
COSEC	Companhia de Seguro de Créditos
CP3	Climate Public Private Partnership
DAC	Development Assistance Committee
DCA	Development Kredit Authority
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH
DFI	Development Finance Institution
ECA	Export Credit Agency
ECGD	Export Credits Guarantee Department
EDC	Export Development Canada
EDFI	European Development Finance Institutions
EFIC	Export Finance and Insurance Corporation
EIB	European Investment Bank
FASEP	Private Sector Aid Fund
FIEM	Fund for the Internationalisation of Companies
Finexpo	Belgian Interministerial Advisory Committee
FMO	Dutch Entrepreneurial Development Bank
FONPRODE	Fondo para la Promoción del Desarrollo
G20	Group of Twenty
GHG	Greenhouse gases
GIEK	Norwegian Export Credit Agency
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GPOBA	Global Partnership on Output Based Aid
HLP	G20 High Level Panel on Infrastructure
IADB	Inter-American Development Bank
ICA	The Infrastructure Consortium for Africa
ICD	Islamic Corporation for the Development of the Private Sector

ICIEC	Islamic Corporation for Insurance of Investment and Export Credit
ICT	Information and communications technology
IFC	International Finance Corporation
IIC	Inter-American Investment Corporation
IOPSDDC	International Office for Private Sector Development in Developing Countries
JICA	Japan International Cooperation Agency
JBIC	Japan Bank for International Co-operation
K-Sure	Korea Trade Insurance Corporation
KEXIM	Export-Import Bank of Korea
LDC	Least Developed Country
LIC	Low Income Country
LMIC	Lower Middle Income Country
MCC	Millennium Challenge Corporation
MDB	Multilateral Development Bank
MIF	Multilateral Investment Fund
MIGA	Multilateral Investment Guarantee Agency
NEPAD	New Partnership for Africa's Development
NEXI	Nippon Export and Investment Insurance
NZECO	New Zealand Export Credit Office
Norfund	Norwegian Investment Fund for Developing Countries
ODA	Official Development Assistance
ODF	Official Development Finance
ONDD	Belgian Export Credit Agency
OOF	Other Official Flows
OPIC	Overseas Private Investment Corporation
OPSM	Private Sector Department
PPIAF	Public-Private Infrastructure Advisory Facility
PIC	Pacific Island Country
PIDG	Private Infrastructure Development Group
PPP	Public Private Partner hip
PROPARCO	Promotion et Participation pour la Coopération économique
PSD	Private Sector Development
PSOD	Private Sector Operations Department
PWC	Price Waterhouse Coopers
RPE	Emerging Markets Reserve (France)
SADC	South African Development Community
SEI	Sustainable Energy Initiative
SCF	Structured and Corporate Finance Department
SOFID	Sociedade para o Financiamento do Desenvolvimento
UK	United Kingdom
UMIC	Upper Middle Income Country
USA	United States of America
US-EXIM	Export-Import Bank of the United States
WBG	World Bank Group

BACKGROUND AND INTRODUCTION

1. The Monterrey Consensus of 2002 emphasised the need to mobilise private resources to complement Official Development Assistance (ODA) for developing countries to achieve the Millennium Development Goals (MDGs). More recently, there has even been stronger interest in the international community to include the private sector's contribution to the Post-2015 MDG framework. In recognising the rapidly changing development landscape of more actors and a greater range of development finance, the Development Assistance Committee (DAC) also concluded in its Strategic Reflection Exercise of 2009 that donors would need to ensure that ODA mobilises non-aid sources of development finance, including Foreign Direct Investment (FDI). [1]

2. Furthermore, at its High Level Meeting of December 2012, the DAC agreed on the need to understand the wider development financing landscape, particularly the relationship of the different flows and types of finance, in order to maximise development impact. It reiterated the need for ODA to be strategically combined with and leverage other development-related flows (OECD, 2012a). Moreover, it called for improved measuring and monitoring of all external development finance with implications for ODA (OECD, 2012b). To implement this mandate, the DAC is currently developing the statistical categories and methods to better capture the full picture of external resources flowing to developing countries, particularly non-concessional finance offered by bilateral and multilateral development finance institutions (DFIs), export credits and FDI statistics. There is also an on-going effort to adapt measurements to the post 2015 MDG development framework led by the United Nations.

3. Notwithstanding these efforts to capture and harmonise basic statistical aspects related to development finance, it is also important to analyse in tandem policy dimensions on sectoral activities, particularly on how development co-operation is currently used to mobilise other sources of finance. Here, activities include those by traditional aid agencies but also DFIs that provide direct funding or subsidies to private sector entities with the objective of assisting the economic development of developing countries. Recently, the role of DFIs has been increasing, as their contribution to economic development and poverty reduction through private sector-led growth is being emphasised. It is also expected that their role will further expand in the post-2015 MDG development architecture.

4. In this respect, economic infrastructure—water, transport, energy and telecommunications—is a topic that could be examined closely.[2] There are several reasons: first, its contribution to economic growth and human development is well established; second, it is an area that requires major funding; third, there is significant potential for more private investment, bearing in mind that it is not necessarily appropriate in all situations; and lastly, development co-operation has a key role to play in supporting private sector participation and leveraging private finance, including through DFIs. In fact, infrastructure investment for developing countries has become an area of work for the G20 and G8, to which the OECD has been contributing its knowledge from various policy angles, such as the role of long-term investors and financing low-carbon infrastructure. This report is also intended to contribute to the discussions of the G20's Infrastructure and Investment Working Group and the Development Working Group's pillar on infrastructure.

5. The objective of the current work stream within the DAC[3] is to determine what donors could collectively do more and better to support private sector participation or leverage private finance for infrastructure. To achieve this, it is necessary to take stock of what donors—bilateral and multilateral development banks (MDBs) — are doing, as well as to draw out common challenges, opportunities, and lessons-learned. The DAC Secretariat thus carried out initial research on 15 bilateral donors, six

MDBs, and one special multi-donor institution that are active in supporting developing country infrastructure and/or expressed interest in participating in the study, i.e. Australia, Belgium, Canada, European Union (EU) Institutions, France, Germany, Japan, Korea, Netherlands, New Zealand, Norway, Portugal, Spain, United Kingdom (UK), United States of America (USA), Asian Development Bank (AsDB), African Development Bank (AfDB), Inter-American Development Bank, Islamic Development Bank (IsDB), European Bank of Reconstruction and Development (EBRD), World Bank Group (WBG), and the Private Infrastructure Development Group (PIDG). The research was based on a template that was discussed by the DAC and Investment Committee's joint Advisory Group on Investment and Development (AGID) and commented by the DAC's informal infrastructure group (OECD, 2013a).

6. From earlier work, as well as studies and discussions held elsewhere among MDBs, think tanks and the G20, it is generally agreed that developing countries need assistance in the following from donors to enhance private sector participation in infrastructure: the enabling environment for investment; financial instruments to support the private sector or leverage private finance; and developing bankable projects with Project Preparation Facilities (PPFs) and closing deals. Donor activities in these aspects have therefore been closely examined in this study. In addition, general principles, such as better co-ordination and information sharing, division of labour, working on comparative advantage, focus on poverty reduction, as well as transparency and accountability, have been addressed.

7. To be comprehensive, this study covers not only ODA[4] but also Other Official Flows (OOF): otherwise, the significant non-concessional financing by particularly MDBs towards infrastructure would be excluded. In addition, although official support by export credit agencies (ECAs) for domestic companies to export goods for commercial purposes are currently captured only at aggregate levels, they are nevertheless covered in the study from an institutional standpoint, as their official financing can significantly affect developing country infrastructure.

8. On the other hand, while it is desirable to capture the leveraging effects of donors, the amounts possibly mobilised are not included in this study due to the difficulties in measuring and attributing them to the support in a uniform way (see Section VI for on-going work on the measurement of leverage). In addition, donors can also be indirectly financing infrastructure by supporting local banking and financial services which could then be lending for infrastructure; however, they are also not included since it is not easy to capture the amounts specifically provided for infrastructure.

9. Leveraging can also occur by the mere fact that major donors have agreed to finance a particular infrastructure project as it signals their confidence in the project. At the same time, the study did not attempt to capture this "stamp of approval" function either, as assessment of this type of leveraging is even more challenging. Therefore, this report only focuses on the support by donors to the private sector without any judgement as to whether it has led to leveraging. In other words, data in this report mostly refer to official disbursed funds recorded in the Creditor Report System (CRS) which do not include mobilised funds or total project costs for private infrastructure investments.

10. The document summarises findings from the review of 22 donors' support to private sector participation in infrastructure. It incorporates points raised in the earlier version of the report that was discussed at the AGID meeting of 21 March 2014, as well as comments and corrections sent to the Secretariat. On-going DAC activities that are addressing some of the challenges identified are listed at the end of the summary, as well as some further remaining issues. At a Glance profiles of each donor's relevant policies and activities are issued separately, which can be found in the following link: http://www.oecd.org/dac/stats/documentupload/DonorProfilesInfra.pdf

OFFICIAL SUPPORT FOR PRIVATE SECTOR PARTICIPATION IN DEVELOPING COUNTRY INFRASTRUCTURE

I. Overview of Official Support to Infrastructure

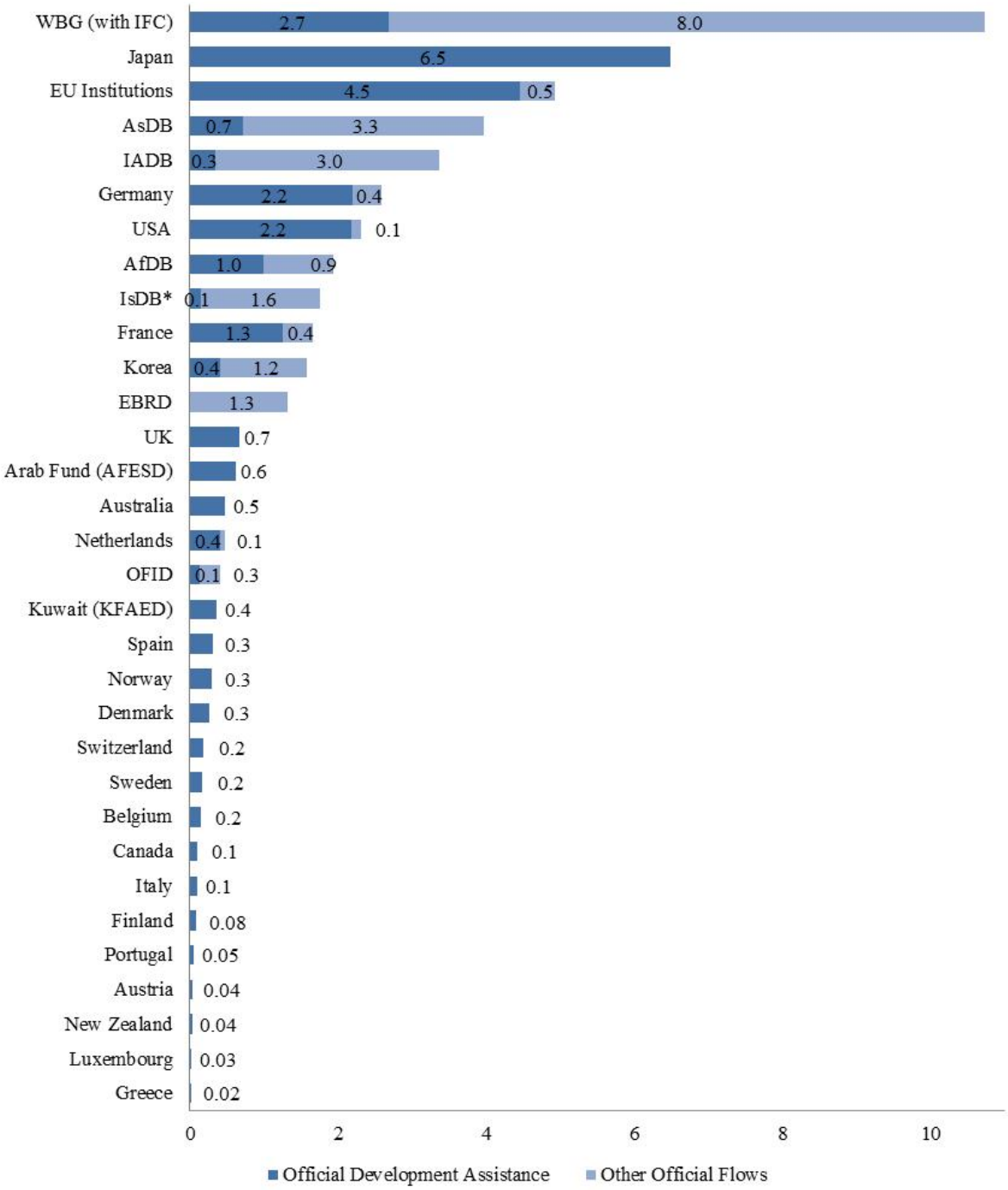
Official support for infrastructure has been growing significantly, reaching USD 48 billion in 2011.

11. The importance of economic infrastructure[5] has been increasingly emphasised during the last decade, driven by the recognition of its crucial role in economic development and poverty reduction, as evident particularly in Asia. At the same time, with demographic growth and urbanisation, the significant financing gap for infrastructure is becoming a challenge.[6] While developing countries worldwide currently spend about USD 800-900 billion per year on infrastructure, annual investment needs are estimated to grow from USD 1.8 to 2.3 trillion in 2020 (Bhattacharya et al., 2012).

12. In light of this situation, official development finance (ODF)[7] to economic infrastructure by bilateral and multilateral donors reported to the DAC has increased significantly in real terms from USD 15 billion in 2002 to USD 48 billion in 2011.[8] Of the amount, roughly 56% was ODA (concessional) and 44% was OOF (non-concessional), of which the latter was mainly loans by MDBs. Among the donors, the WBG was the largest, with disbursements amounting to roughly USD 11 billion, or about a quarter of the total ODF for infrastructure by donors reported. This was followed by Japan, the EU Institutions, AsDB and the IADB (Figure 1). Overall, multilateral donors, including the EU Institutions[9], provided 62% of total financing for infrastructure in 2011, with bilateral donors providing 38%. While emerging economies such as the People's Republic of China and India are also providing significant levels of financing for infrastructure, these amounts are not included, as they do not report to the DAC. However, according to estimations, the two economies provided nearly USD 2.1 billion for infrastructure in 2011 through south-south co-operation (Development Initiatives, 2013).[10]

13. At the same time, donor ODF generally accounts for only 5-8% of all infrastructure financing in developing countries: the majority (55-75%) is paid by the public sector and citizens of developing countries themselves, with 20-30% financed by the private sector (Estache, A., 2010). In addition, the financing gap for infrastructure requires further mobilisation of resources, which is unlikely to be provided either by the donor community — given tightening budgets — or by developing country governments who are constrained by affordability and sustainable debt levels. In this context, trying to leverage more private finance becomes an important avenue for infrastructure financing, especially given the private sector's ability to innovate and use resources efficiently.

Figure 1. ODF to infrastructure in 2011 (in USD billion)

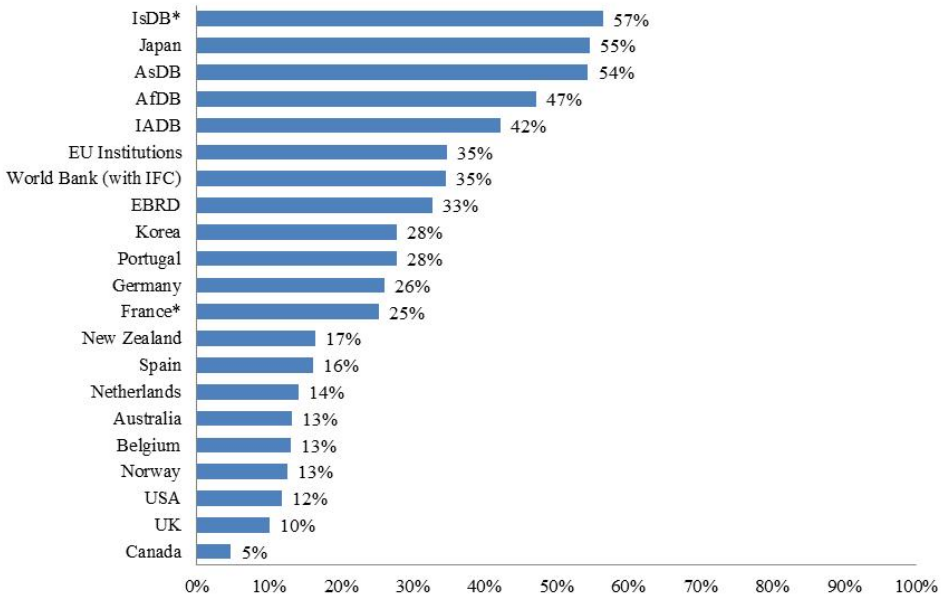


Source: CRS data on gross disbursements in 2011 USD, with the exception of IsDB which is on commitments. AsDB data includes only public lending since AsDB started reporting non-sovereign lending in 2012 only. IFC disbursements for 2011 are based on data provided by the DAC5 database. The data provided for Netherlands includes disbursements by FMO for infrastructure (OOF reported to the Secretariat separately for this study).

14. Infrastructure constitutes a high priority activity for many donors, particularly IsDB, Japan, AsDB, AfDB, and IADB which allocated around half of their respective sector allocable ODF

disbursements to infrastructure in 2011, as well as the EU Institutions, WBG and EBRD, which allocated over 30% (Figure 2). Several of these donors have integrated the importance of supporting private sector participation in their strategies to assist infrastructure development, particularly among MDBs which state the need to shift from providing project financing to becoming a catalyst for private investment. This is consistent with the recommendations of the G20 High Level Panel on Infrastructure (HLP) which called for more focus by the MDBs on activities that can crowd in private capital, such as financing for risk mitigation and supporting the enabling environment (High-Level Panel on Infrastructure, 2011). A few bilaterals also emphasise the additional opportunities created for domestic enterprises, such as Japan.

Figure 2. Share of ODF for infrastructure in total sector-allocable ODF in 2011



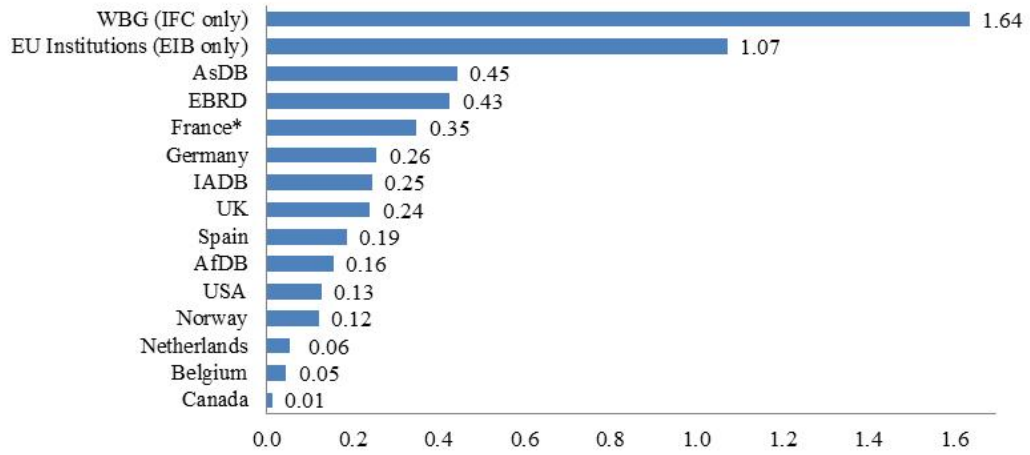
Source: CRS data on gross disbursements. AsDB data includes only public lending since AsDB started reporting non-sovereign lending in 2012 only. IFC disbursements for 2011 are based on data provided by the DAC5 database. The data provided for Netherlands include disbursements by FMO for infrastructure (OOF reported to the Secretariat separately for this study).

Support for private sector participation is roughly 15% of total support to infrastructure.

15. Figure 3 below shows the amounts disbursed in 2011 to the private sector for infrastructure by the respective donors in this study. The support generally consists of either non-sovereign loans or equity for companies or funds investing in developing country infrastructure. Guarantees are not included as they are not financial flows (see Section IV). The WBG's International Finance Corporation (IFC) is by far the largest financier at about USD 1.64 billion in disbursements, followed by the European Investment Bank (EIB) at about USD 1.07 billion. The combined amount by the 14 donors that directly finance the private sector for infrastructure and whose comparable data are available amounted to USD 5.4 billion.[11] Of this amount, multilateral donors provided 74% while bilaterals provided 26%.

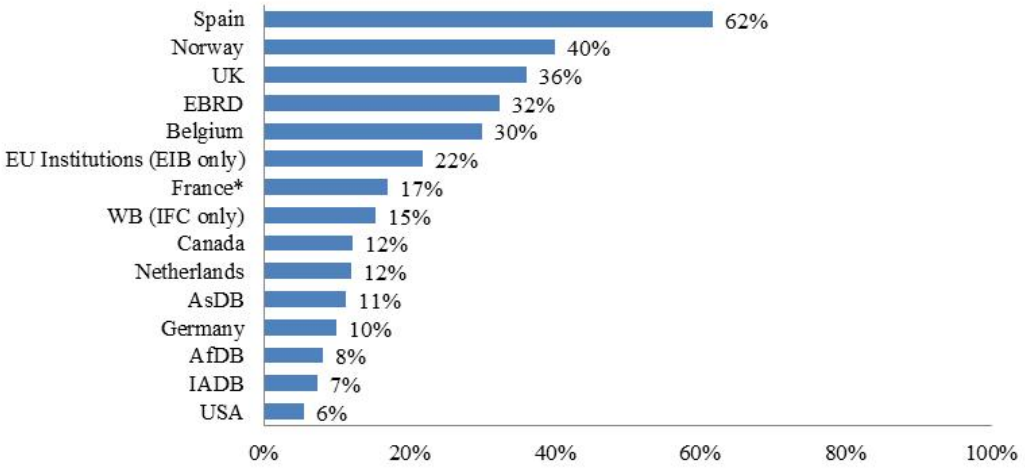
16. Figure 4 shows the share of finance to the privates sector in total infrastructure ODF for each donor—which ranged from 6% to 62%. Spain has the highest share due to its support to the Spanish private sector by the Corporate Internationalisation Fund (FIEM), administered by the Ministry of Economy and Competitiveness. Others with more than a third of the share included Norway, United Kingdom (UK), EBRD and Belgium. In total, the USD 5.4 billion amounted to roughly 15% of the combined disbursement to infrastructure by these donors.

Figure 3. Amount of support to private investment in infrastructure in 2011 (in USD billion)



Source: CRS gross disbursements in 2011 USD. Data for France is an estimate based on commitments reported in its annual reports for 2011. Data for AsDB is an estimate based on its sovereign loans portfolio reported to CRS and non-sovereign loans portfolios reported in the Summary of ADB's Non-sovereign Operations for 2011. IFC disbursements for 2011 are based on data provided by the DAC5 database. Canada's support to private investment for infrastructure consists entirely of its contribution to the IFC-Canada Climate Change programme. Disbursements for Netherlands (FMO) were not extracted from CRS but reported to the Secretariat separately. The following donors are not included as they did not provide significant support to private investment in infrastructure in 2011: New Zealand, Portugal, Australia, Korea, and Japan. IsDB has not provided comparable data regarding their support to private investment in infrastructure.

Figure 4. Share of support to private investment in infrastructure within total ODF for infrastructure in 2011



Source: See sources for Figure 3.

17. For some donors, however, prioritising infrastructure does not necessarily entail supporting the private sector, particularly when the enabling environment or the private sector in partner countries is weak. Several bilateral donors also view MDBs as having a distinct comparative advantage in their capacity to mobilise private capital—owing to their high credibility and regional expertise. Furthermore, depending on the type of project and the level of legal and regulatory framework of certain developing countries, private sector participation may not be the most cost-efficient option for a particular infrastructure plan (OECD, 2013a).

Box 1. Examples – Policies on Private Sector Participation in Infrastructure

- For **USA**, engagement with the private sector in developing country infrastructure is essential throughout all channels of its development co-operation, as well as in its export promotion**. Japan** recently placed support to public private partnerships (PPPs) in infrastructure at the heart of its development co-operation. Furthermore, the potential for infrastructure-related investment overseas is also emphasised in Japan's domestic growth strategy.

- **New Zealand** sees that local enterprises in Pacific Island Countries rarely have sufficient resources to share construction costs of infrastructure investments. However, New Zealand promotes private sector participation in operation and maintenance of public sector infrastructure projects.

- Given the unstable political situation in many of the client countries, the **IsDB** sees that private sector interest in infrastructure investment is currently very low.

II. Relevant Institutions

DFIs, special/multi-donor programmes, and ECAs support the private sector in infrastructure.

18. Bilateral institutions that support private sector participation in infrastructure are DFIs, special programmes, and ECAs (see Table 1). Many countries have established a DFI with a development mandate and special objective of catalysing private investment for developing countries where access to capital markets is limited. The role of DFIs is to bridge the gap between commercial investment and government aid, while avoiding market distortions. The stated objectives of bilateral DFIs differ depending on the country. The first group consists of those with a single stated mandate to support private sector development in developing countries, as in the case of the Belgian Investment Company for Developing Countries (BIO), the German Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) within Kreditanstalt für Wiederaufbau (KfW), the CDC Group of UK, the Promotion et Participation pour la Coopération Economique (PROPARCO) of France, and Norfund of Norway.

19. The second group has an additional objective of promoting their domestic companies in contributing to economic development of their partner countries, such as Overseas Private Investment Corporation (OPIC) of USA, Sociedade para o Financiamento do Desenvolvimento (SOFID) of Portugal, and the Spanish Development Finance Company (COFIDES)[12]. At the same time, as information regarding the types of companies that receive support are not always transparent—nor is there currently a system to collect this data—it is difficult to determine the extent to which non-national companies are supported in the first group. As a result, whether or not there is a significant difference between the first group with only a development objective and the second group which has an additional objective of promoting their domestic companies needs to be further explored.

20. In particular, with the exception of Belgium, most donors do not explicitly express an objective of supporting partner countries' local private sector in infrastructure investment. This may be because, particularly in African countries, local small and medium sized enterprises (SMEs) are usually not competitive enough to ensure quality infrastructure. Furthermore, companies of donor countries often work with their subsidiaries or local companies in partner countries anyway. On the other hand, allowing greater ownership by local actors is more conducive to private sector development, inclusive growth, and enhanced social impact. Small scale feeder roads and involving small independent power producers and local communities can also be more pro-poor. It is therefore important to try and connect local SMEs to international foreign investors. Discussions at an AGID meeting highlighted that, be it foreign or local company, the key is to support the best deal with the right balance among development impact, job creation, labour intensity of projects, and the business case (OECD, 2013b).

Table 1. Institutions promoting private investment for infrastructure

Country/MDB	DFI	Other Programmes	ECA
Australia	-		EFIC
Belgium	BIO	Finexpo	ONDD
Canada	-		EDC
France	PROPARCO (AFD)	FASEP, RPE	COFACE
Germany	DEG (KfW Banking Group)		Euler Hermes
Japan	-	PSIF (JICA)	NEXI, JBIC
Korea	-		KEXIM, K-Sure
Netherlands	FMO		Atradius
New Zealand	-		NZECO
Norway	Norfund	IOPDDC	GIEK
Portugal	SOFID	AICEP	COSEC
Spain	COFIDES	FIEM, FONPRODE	CESCE
UK	CDC		ECGD
USA	OPIC	MCC, DCA (USAID)	US EXIM
AfDB	OPSM		-
AsDB	PSOD	CP3 Asia Fund	-
EBRD	Regional/sector departments	SEI	-
EU	EIB	-	-
IADB	SCF, IIC	MIF	-
IsDB	PPP Division in Infrastructure Department, ICD, ICIEC	AFFI	
World Bank	IFC, MIGA	PPIAF, CIF, GPOBA	

Note: Acronyms are spelled out in the Abbreviation section of this document.

21. The institutional arrangements of DFIs vary depending on the country: some are supervised by the Ministry of Foreign Affairs (MFA) or the aid agency (BIO, DEG, Norfund); others are a branch within an aid agency or owned by it (PROPARCO, CDC); and some are supervised by a ministry unrelated to development co-operation, usually in charge of trade or finance (COFIDES, SOFID). More specifically for example: Norfund is fully owned by the state; DFID is the sole shareholder of CDC; 51% of Netherlands Entrepreneurial Development Bank (FMO)'s shares are held by the state while 49% are held by commercial banks, trade unions, and other Dutch private sector representatives;

and SOFID is 60% co-owned by the state while four major Portuguese banks own 10% each. In addition, the composition of boards of the bilateral DFIs shows that, in general, members are represented from a wide range of stakeholders, including academia, commercial banks, trade unions, local public entities, elected offices, lobby groups, consulting firms, investment firms and central government. In fact, it appears that, aside from PROPARCO which is part of the French Agency for Development, aid agencies or those who represent the development view point in the board appears to be limited. Possibly due to these governance arrangements, in most cases, DFIs operate autonomously from aid agencies that are responsible for mainstream development co-operation.

22. Among MDBs, the institutional structure of support to private sector participation in infrastructure also differs. Typically, non-sovereign operations for infrastructure are managed by a specific department, such as the Private Sector Operations Department in the AsDB, the Structured and Corporate Finance Department in the IADB and the Private Sector Department of the AfDB. The WBG's IFC is currently the only institution that is financially independent, although IADB is considering creating a similar one. In contrast, in EBRD, non-sovereign operations are mainstreamed within regional and sector departments.

23. The attention towards DFIs is increasing in recent years, with several countries currently without one either planning or exploring possibilities to establish a DFI. This trend is due to: the growing recognition of the private sector as an important vehicle for development; increasing pressure on aid budgets to leverage other sources of financing; reduced lending capital by commercial banks with tighter regulations resulting from the global financial crisis; and the possibility of increasing business opportunities for domestic companies in times of economic downturn. For example, Japan is establishing a government funded organisation under the Ministry of Land, Infrastructure, Transport and Tourism, to support Japanese companies to invest in PPP infrastructure projects abroad, especially in Southeast Asia. Canada has recently set up an interdepartmental group which provided recommendations for innovative development financing options that included establishing a DFI (Rahman, S., 2014). The Australian parliament is also examining issues such as financial instruments that could be used by the government to enhance the role of the private sector in development, particularly in the Indo-Pacific region.

24. In addition to DFIs, many countries have established special programmes within existing institutions aimed at supporting developing country infrastructure projects by domestic or local enterprises such as Japan's Private Sector Investment Finance (PSIF) within Japan International Cooperation Agency (JICA) and Spain's FIEM mentioned above. Many countries also channel their support for private sector participation in infrastructure through multi-donor programmes, usually hosted in MDBs. This is particularly the case of Canada and UK. These programmes allow bilateral donors to benefit from the expertise of MDBs and create synergies among their collective efforts. They are also generally untied from the contributing countries. Multi-donor programmes often support a particular region, infrastructure sector—such as transport or climate change mitigation and adaptation—or specifically for the project preparation stage (see Section V).

Box 2. Examples – Multi-donor Programmes to Support Private Sector Participation

- Ten donors, including Australia, Germany, the Netherlands, and UK, provide funding to the **Private Infrastructure Development Group (PIDG)'s** eight facilities which are managed individually to fund early-stage capital, long-term debt finance, local currency guarantees, grants and technical assistance for developing country infrastructure. In 2012, PIDG facilities committed a total of USD 239 million to nine infrastructure projects, leveraging finance of 24 times the amount.

- **EU-Africa Infrastructure Trust Fund** blends grants from EU member states and the European Commission (EC) with long-term loan finance from eligible public and private financiers. In 2012, it committed approximately USD 113 million for 17 projects primarily in the energy and transport sectors, leveraging approximately USD 1.6 billion of investment.

- Bilateral donors contribute grants, concessional loans and guarantees to the **Climate Investment Funds** to leverage private finance for climate-friendly infrastructure projects that are implemented by EBRD, AfDB, AsDB, IADB and the WBG.

ECA activities in developing country infrastructure is equivalent to a quarter of bilateral ODF.

25. Whether they have a DFI or not, a majority of donor countries support exports and foreign investments by domestic enterprises through ECAs, which may have an impact on developing country infrastructure. While ECAs—often supervised by the Trade or Finance Ministries—do not usually have development-related objectives, their activities involving low-income countries (LICs) are subject to an agreement on sustainable lending practices. This is in addition to the Arrangement on Officially Supported Export Credits that provide a framework for a level playing field among ECA operations globally.[13] The Sustainable Lending guidelines stipulate that export credits for public buyers and publicly guaranteed buyers in LICs should generate net positive economic returns, foster sustainable development by avoiding unproductive expenditures, preserve debt sustainability and support good governance and transparency (OECD, 2008). The adherence to these principles by members of the OECD Trade Committee's Working Party on Export Credits and Credit Guarantees (ECG) is monitored regularly by its Secretariat.

26. Data collected by the ECG shows that there is significant funding for infrastructure in ODA eligible developing countries, which amounted to approximately USD 11.3 billion in commitments in 2010 (excluding non-fixed assets such as aircrafts, ships, vehicles, etc.)[14] This was equivalent to roughly a quarter of ODF commitments by bilateral DAC countries in the same year[15], although most of the export credit amount comprised of private credits that were insured or guaranteed by ECAs. Of this total, roughly 4% went to LICs.[16] Some examples of infrastructure projects with export credits in LICs, which ranged from USD 4 million to USD 112 million commitments, are shown in Table 2 below (OECD, 2008). The DAC and ECG are currently collaborating on deriving better DAC statistics on members' officially supported export credits (direct lending or guarantees/insurance) to ODA-eligible countries in 2010-12, including with sectoral information.

27. While ECAs become engaged in the details of infrastructure projects after plans for the projects have been established—as opposed to DFIs which tend to finance longer-term investments and be engaged from the beginning—the distinction between the two types of institutions are blurred by the growing overlap in their respective sets of financial instruments, particularly those of DFIs that only support their domestic enterprises. Therefore, the division of role between DFIs and ECAs in financing developing country infrastructure could be better clarified in order to maximise development

impact. The OECD Business and Industry Advisory Committee representatives have also made repeated calls for better co-operation between DFIs and ECAs in AGID meetings (OECD, 2013b).

Table 2. Examples of infrastructure projects involving DAC members' official export credits in LICs

Reporting country	Buyer Country	Buyer/ Guarantor Type	Project Name
Australia	Sri Lanka	Sovereign	Ampara District Water Supply Project
Germany	Viet Nam	Non-Bank Private/ Sovereign	Nhon Trach 2 gas Power Plant
Netherlands	Tanzania	Public/ Sovereign	Harbour (Project Unspecified)
Portugal	Angola	Public/ Sovereign	Benguela-Lobito Road rehabilitation
USA	Honduras	Non-Bank Private	Cerro de Hula Wind Farm
Portugal	Angola	Instituto de Estradas de Angola	Cabinda-Cacongo Road Rehabilitation
France	Mozambique	Moçambique Celular SARL	Moçambique Celular's GSM Network Extension

Box 3. Examples – ECA Activities in Developing Country Infrastructure

- **Belgium's Office National du Ducroire (ONDD)** provided a guarantee covering 75% of the bond issue worth USD 50 million that helped finance a Safaricom telecommunications venture in Kenya.
- **New Zealand Export Credit Office** is supporting a New Zealand enterprise in connecting Pacific island countries to a submarine fibre optic cable linking USA and Australasia.
- **Korea's KEXIM and K-Sure** guaranteed loans of USD 350 million by EIB, USD 150 million of EBRD, and several commercial banks to a Turkish-Korean venture to finance the underwater tunnel which connects Istanbul's European and Asian sides.

Information sharing among agencies is often weak, particularly at the partner country level.

28. With a few exceptions (see Examples below), co-ordination or information sharing among the different institutions of donor countries involved in private participation in developing country infrastructure appears to be weak. This applies particularly at the country and regional level, with field offices or embassies often having limited knowledge of even major DFI operations in their partner countries. MDBs such as IADB also self-assessed that lack of co-ordination particularly between the sovereign guarantee and non-sovereign guarantee sides of the Bank impeded synergies in private sector support which resulted in significant lost opportunities to foster infrastructure PPPs. The WBG is also trying to enhance co-operation within its group in promoting the enabling environment and developing PPP project pipelines.

29. The lack of knowledge by embassies may also apply to operations by ECAs which do not have developmental objectives. ECAs generally respond to demands for support from exporters, which will be decided based on the ECA's assessment of the risk. From a partner country perspective, it would be useful for donor countries to share information among their relevant official support to the private sector for infrastructure, particularly for LICs, by aligning with their infrastructure and development priorities. This would particularly be in line with efforts made through the Global

Partnership for Effective Development Co-operation which is developing ground rules on working with the private sector as an important partner in development.

Box 4. Examples – Inter-Agency Co-ordination for Private Participation in Infrastructure

- Responsible departments in **Norway's** MFA regularly co-ordinate with Norad, Norfund, and embassies on the ground to ensure synergies among the activities of different agencies, including for infrastructure.

- In 2010, **Japan** established a "one voice" (Ministry of Economy, Trade and Industry of Japan, 2010) framework to support initiatives of private companies in the export of infrastructure systems. This has led to increased co-operation between agencies such as JICA and Japan Bank for International Cooperation (JBIC), including in reviewing and co-ordinating respective financial instruments and approaches. More recently, it has been organising Cabinet level multiple ministry meetings to implement the Strategy Relating to Infrastructure Export and Economic Co-operation. The new governmental corporation to export infrastructure systems is also expected to co-operate with JBIC, JICA, NEXI, public banks and construction consultants to help support Japanese construction companies win overseas contracts, particularly in Asia.

- In **USA**, co-ordination occurs among many actors. USAID and the Millennium Challenge Corporation (MCC) co-ordinate regularly with other agencies to reduce duplication of efforts. On specific projects, OPIC co-ordinates with USAID and the US State Department; US-EXIM frequently collaborates with State Department and embassies for information; and the US Trade and Development Agency (USTDA) holds regular consultations with US-EXIM and OPIC, particularly in helping host countries identify investment opportunities in PPPs.

There is no official and transparent mechanism to monitor common standards of DFIs.

30. While co-ordination within donor country governments may be weak in supporting private sector participation in infrastructure, there appears to be active collaboration among the various DFIs—sometimes together with MDBs—presumably to share costs and risks. This is welcome particularly when they harmonise their efforts to ensure synergies in supporting partner countries' priorities, in accordance with principles of the Global Partnership for Effective Development Co-operation. Co-ordination is especially important in infrastructure, given the significant financing involved. At a more general level, IFC organises the Private Sector Development Institutions Roundtable around the Bretton Woods Annual Meeting for heads of multilateral and bilateral DFIs to foster collaboration in better serving clients and enhancing development impact. For example, at its meeting in 2013, over 20 DFIs endorsed common guidelines for the use of concessional finance where market failures exist but potential development impact is high, such as investments for climate change (OBVIAM, 2013). All European DFIs are members of the European Development Finance Institutions (EDFI) association, which facilitate information sharing, finding joint projects, and harmonising evaluation criteria.

31. At the same time, there is no official forum for DFIs where financing private sector activities for development is monitored formally, regularly and transparently, based on agreed and committed standards. This is in contrast with ECAs where the ECG requires standardised reporting on data and activities against the Arrangement and Common Approaches mentioned above, as well as traditional aid agencies which are bound by the DAC Recommendation on Untying ODA to the Least Developed

Countries and Highly Indebted Poor Countries, not to mention various aid effectiveness principles agreed in Paris and Busan. As the main objective of DFIs is to contribute to development—unlike ECAs—the establishment of a more formalised mechanism for their accountability may be worth considering.

Box 5. Examples – Co-operation among DFIs

- In 2010, **FMO** and **BIO** signed a Risk Sharing Agreement to jointly identify and finance bankable infrastructure projects. In 2012, **PROPARCO** also signed an agreement with **FMO** and **DEG** to co-finance projects, particularly in infrastructure. In the same year, **FMO** and **DEG** opened a joint office in Johannesburg, South Africa, to serve as a point of contact for several African countries and to facilitate the identification of co-financing opportunities.

- The **EC, EBRD** and **EIB** signed a Memorandum of Understanding in 2011 to improve co-ordination and collaboration regarding their activities outside the EU through early information exchange for portfolio co-ordination and project co-financing. It aims to make use of the comparative advantages of the concerned organisations.

III. Geographical and Sectoral Distribution

The majority of financing for the private sector in infrastructure is directed towards UMICs.

32. In terms of regional distribution, the share of support to private sector participation in infrastructure was relatively balanced in 2011, although Europe had the largest share at 32% and Africa the smallest at 19% (see Figure 5). At the same time, while the support aims to provide financing in countries with limited access to commercial lending, 69% of the support went to Upper Middle Income Countries (UMICs) (see Figure 6). This is followed by Lower Middle Income Countries (LMICs) at 23% and 8% to LICs. Of the donors that provided above average support to LICs—Belgium, the Netherlands, Norway, UK and USA—only the Netherlands, Norway and UK focused on LICs more than other income groups. In particular, the Netherlands disbursed 82% of its support to LICs.

Figure 5. Regional distribution of support to private investment in infrastructure

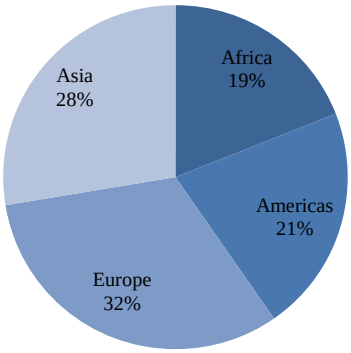
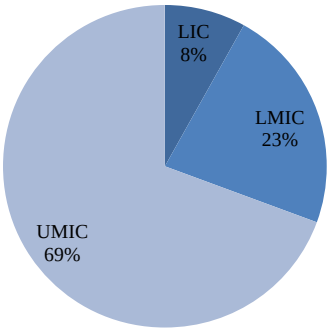


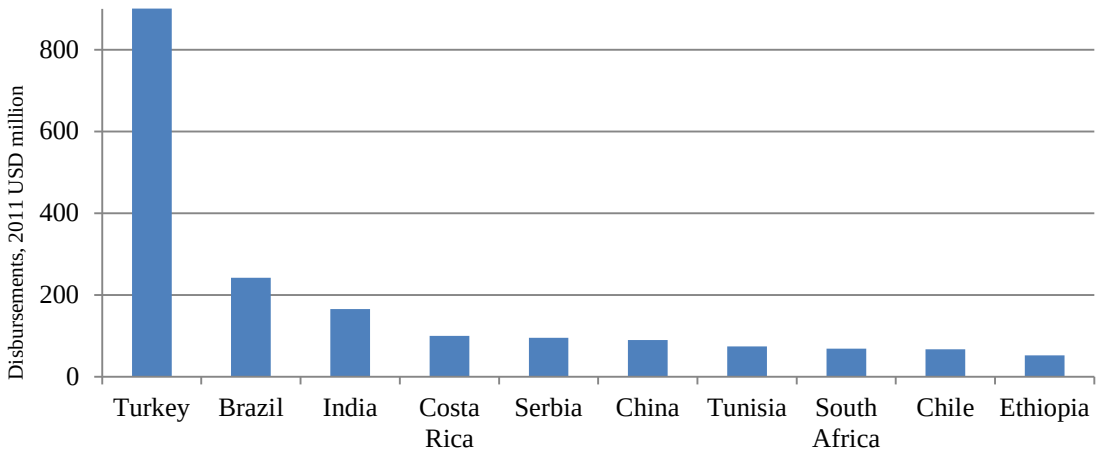
Figure 6. Income level distribution of support to private investment in infrastructure



Source: CRS (gross disbursements 2011 for AfDB, Belgium, Germany, Norway, Spain, UK, USA, EIB, EBRD and IADB), DAC5 and DAC2b for IFC and projects reported in the Summary of AsDB's Non-sovereign Operations 2011 for AsDB. Canada is not included in the analysis because its contribution is channelled through the IFC. The regional distribution of IFC disbursements for 2011 is based on OECD estimates applying the regional distribution of IFC disbursements for all sectors to the share of infrastructure sectors as IFC does not report its regional distribution by sector to the DAC. IFC is not included in Figure 6 as country breakdowns are not provided by the DAC2b database by sectors. DFID and DEG are not included in Figure 6 as they provide the regional distribution of projects by sectors but not the country breakdown. Disbursements for Netherlands (FMO) were not extracted from CRS but reported to the Secretariat separately.

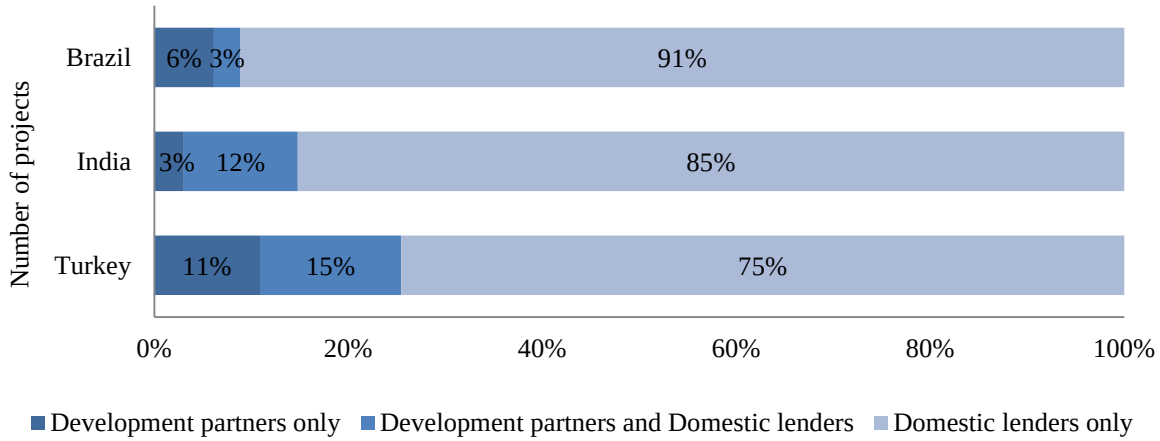
33. While DFIs such as DEG, IFC, PROPARCO and FMO[17] do not report the country breakdown of their support by sector to the CRS, Figure 7 below illustrates the top ten recipient countries among those that do report. These countries were all MICs with Brazil, China, Costa Rica, Serbia, South Africa, Tunisia and Turkey being UMICs. The top three—Turkey, Brazil and India—amounted to a quarter of total financing to the private sector in infrastructure. At the same time, analysis from the World Bank's Private Participation in Infrastructure (PPI) database shows that, in these three countries—in terms of number of projects—there is substantial financing of their infrastructure by national banks, such as the Brazilian Development Bank, the Industrial Development Bank of India, the Industrial Development Bank of Turkey, as well as local commercial banks (OECD, 2014a) More specifically, Figure 8 shows that, in 2008-2012, 75-91% of the infrastructure projects with private sector participation in these countries was financed only by domestic lenders, 3-15% was financed by both domestic lenders and donors, and 3-11% was financed only by donors.

Figure 7. Top ten recipients of support to private investment for infrastructure



Source: CRS (gross disbursements 2011 for Norway, EBRD, IADB, Belgium, AfDB, Spain, UK, USA, EIB) and projects reported in the Summary of ADB's Non-sovereign Operations 2011 for AsDB. Canada is not included in the analysis because its contribution is channeled through the IFC. IFC is not included either as country breakdowns are not provided by the DAC2b database by sectors. DFID and DEG are not included as they provide the regional distribution of projects by sectors but not the country breakdown. Disbursements for Netherlands (FMO) were not extracted from CRS but reported to the Secretariat separately.

Figure 8. Distribution of the financing of infrastructure projects by donors and domestic lenders (2008-2012)



Source: PPI Database. The analysis is based on the number of infrastructure projects with private investment that reached financial closure and were not cancelled or distressed between 2008 and 2012.

34. Examining the level of FDI flows to the above top ten recipients shows a mixed picture, although data are for all sectors combined—thus not exclusively FDI for infrastructure—since disaggregated data are currently not available. In other words, for some countries, the ODF to support the private sector for infrastructure was very low with respect to total inward investment volumes in 2011. For instance, the proportion of ODF for China was equivalent to only 0.1% of Chinese inward investment in 2011 and 0.4% in Chile. In contrast, this proportion was much higher for other countries such as Ethiopia where the ODF was equivalent to 25% of inward investment. As the DAC is

currently working on better capturing FDI flows to developing countries, particularly disaggregated by main sectors, a better picture may be obtained in the near future, thus enabling comparison between ODF finance to the private sector and FDI—although the extent to which the former leverages the latter would be difficult to determine.

Box 6. Examples – Geographical Focus

- **Norfund**'s objective is to contribute to sustainable commercial businesses in developing countries, mainly through direct investments in renewable energy, financial services, and agribusiness, focusing on LDCs and Sub-Saharan Africa. **BIO** targets LICs where over one fifth of its infrastructure support was directed in 2011. It identifies its expertise in providing finance to small-scale local infrastructure projects.

- **CDC** is now targeting poor countries in Africa and South Asia and **PROPARCO's** priority is Sub-saharan Africa in a financial markets and infrastructure. PIDG also states that it focuses on LICs in Asia and Africa.[18]

- As the second largest provider of guarantees for development after OPIC, **MIGA** insures investors against losses resulting from political risks. In 2011, infrastructure made up about a third of its issued guarantees. MIGA has extensive expertise in guaranteeing complex infrastructure projects, particularly in LICs and conflict-afflicted countries.

Accountability and transparency of additionality need to be enhanced.

35. In principle, ODF to fund the private sector should bring financial additionality, i.e. catalyse private finance for bankable projects which would otherwise not be financed due to limited access to capital markets. Here, since the majority of the support is going to UMICs, including in countries where the domestic financial sector is relatively developed, the question of additionality may rise. CSO studies also point to the excessive focus on commercial gains which results in overemphasising investments in UMICs—where official support may be even crowding out commercial funding—at the expense of poorer countries that have the greatest needs (Kwakkenbos, J., 2012).

36. However, the low proportion to LICs may be reflecting the difficulties in financing projects in these countries with a weak enabling environment when many DFIs need to realise returns on investment. One could therefore argue that it would be more efficient to continue supporting traditional infrastructure procurement in LICs and try to leverage private investment in countries where there are higher potential. Additionality could also be assessed at the project level — since donors may be supporting poorer areas or higher risk projects of UMICs and LMICs where domestic financiers may not want to invest. DFIs also argue that they can bring additionality by making projects more commercially viable and improving development outcomes (IFC, 2011:26). IFC, IADB, and EBRD have also developed guidelines on concessional finance to improve the additionality of MDB financing (IFC, 2013).

37. On the other hand, a review commissioned by the European Parliament on mainly European DFIs and MDBs concludes that evidence for additionality is very weak, although the coverage goes beyond support to infrastructure. It cites studies that found most of the projects would have gone ahead without the public finance. It also points to worse results on operational or institutional additionality in that there is very little evidence on DFIs actively seeking to influence project design or policy to improve poverty outcomes. Furthermore, it finds that, despite DFIs' claim to financial additionality, the measures are actually varied, inadequate, and moreover considered as one of

multiple criteria for projects rather than as a necessary condition to be filled (European Parliament, 2014).

38. Furthermore, the Donor Committee for Enterprise Development, a platform of bilateral and multilateral agencies to share knowledge on private sector development, also sees that assessment criteria are often limited or vague, with assessment processes often being confined to brief justifications by potential partner companies—although this applies more generally than just the infrastructure sectors. Therefore, in terms of financial additionality, it suggests some criteria and indicators, such as unavailability of commercial finance (e.g. with proof of loan rejections from banks), no displacement of competitors in the market; the ability to leverage other private investment, and so on (Heinrich, M., 2014). Building on these existing efforts, the DAC could discuss ways to enhance accountability and transparency in implementing agreed standards to assess additionality of official support to the private sector.

Energy is the priority sector, including renewables.

39. The private sector in energy receives by far the largest funding in infrastructure at 60% (see Figure 9). This reflects growing initiatives to support the energy sector, such as the UN Energy for All, US's Power Africa, PIDG's Green Africa Power, and so on. Within energy, renewables such as hydro, solar, wind, geothermal, and others receive roughly 40% of the disbursements (see Figure 10). Overall, bilateral institutions tended to finance renewables—often through independent power producers—than MDBs. The tendency may be due to the flexibility of bilateral agencies in specialising in certain sectors whereas MDBs are obliged to be more multi-sectoral. Furthermore, MDB member-client countries may be expressing stronger preferences for non-renewables in borrowing loans for large infrastructure projects, as renewable or clean energy may not always be the most obviously cost-efficient solution in the short term.

40. While renewable energy can have positive impact on climate change, studies indicate that long-term contracts such as PPPs might be unsuitable for sectors where technology and prices can rapidly change (Estache, A., 2010: 76). More information is required to assess the extent to which support to renewable energy projects are directed towards complex PPPs or independent power producers that are not part of PPPs. Furthermore a recent comprehensive study on actual costs of hydropower megaprojects concluded that, in most countries, they will be too costly and take too long to build to deliver a positive risk adjusted return. The study advises particularly developing countries to prioritise agile energy alternatives that can be built over shorter time horizons (Ansar, A., et al, 2014). Concerning nuclear energy—which is non-renewable but low-carbon—Canada, France, Japan, Korea and USA are supporting this type of technology in developing countries such as India, Turkey, Vietnam and in the Middle East. However, ODF does not appear to be used to support private sector participation.[19]

41. Beyond renewable energy, reference to low-carbon and climate resilient infrastructure in the transport sector is absent in most strategies of donors in supporting the private sector, except for the EBRD which has a specific focus on environmentally sustainable transport systems[20] (see Examples). It appears that bilateral donors tend to consolidate their support to the private sector for low-carbon and climate resilient infrastructure through contributions to multilateral funds established for this purpose rather than trying to mainstream it explicitly in their bilateral aid programme outside renewable energy.

42. After energy, transport was the next focus at 20% and ICT at 15%. Until the late 1990s, telecoms tended to be an important beneficiary of support to private sector participation in infrastructure. However, this is no longer the case since most of the large profitable transactions have been completed (Estache, A., 2010: 75). The least support goes to water and sanitation which encounter difficulty in mobilising private and public finance, despite being crucial for human wellbeing. This situation is driven by several factors, including: unstable or insufficient revenue streams to pay back the investment; mismatch between the large infrastructures that financiers prefer to invest in and the small size and business model of water projects (except for big desalination plants or wastewater treatment plants); and unclear responsibilities and insufficient capabilities of local agencies often in charge of water supply and sanitation. In particular, the need for household tariffs for water to remain low, due to social and political considerations, is not conducive for financiers (Marin, 2009). At the same time, as water and wastewater treatment is also necessary for manufacturing and industrial development, some major private investment and advisory firms such as Blackstone are developing initiatives to tap into IFC expertise as well as partner with the public and private sectors to leverage long term investment for water in developing countries (Blackstone, 2014).

Figure 9. Sectoral distribution of support to private investment in infrastructure

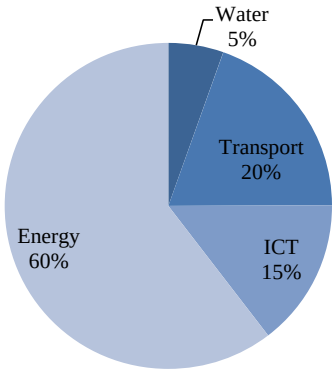
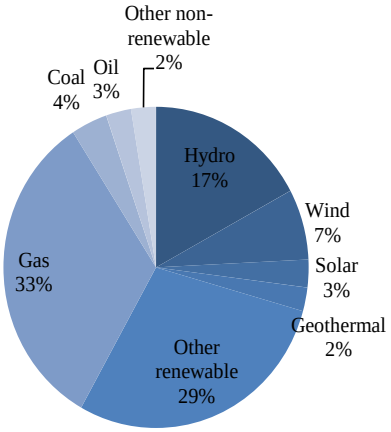


Figure 10. Distribution of support within energy



Source: For Figure 9, CRS (gross disbursements) in 2011 for AfDB, Belgium, Germany, Norway, Spain, UK, USA, EIB, EBRD and IADB, DAC5 Database for IFC disbursements and projects reported in the Summary of ADB's Non-sovereign Operations 2011 for AsDB. For Figure 10, CRS for energy generation disbursements only for 2011 (AfDB, Belgium, Germany, Norway, Spain, UK, USA, EIB, EBRD, IADB). Disbursements for Netherlands (FMO) were not extracted from CRS but reported to the Secretariat separately.

Box 7. Examples – Energy and Transport

- **JBIC** introduced the GREEN programme as Japan's commitment to the 2009 COP15 Conference on Climate Change in providing Fast-Start Finance for climate change in developing countries. It provides loans, equity, and guarantees for renewable and efficient energy projects. To date, JBIC has provided USD 2.04 billion, which mobilised USD 1.4 billion from private financiers.

- The Power Africa programme of **USA,** implemented by USAID, OPIC, EXIM, MCC and the USTDA, aims to increase access to electrical power on the continent. So far, the programme has committed USD 7 billion in the form of equity, loans and guarantees, which has leveraged USD 14 billion in private investments from US, African and other international enterprises and financial institutions.

- In its transport strategy, **EBRD** spells out its aim to support environmentally sustainable transport systems, focusing on energy efficiency through optimised transport networks. Furthermore, under its

Sustainable Energy Initiative, it has provided almost Euro 870 million of loans and equity since 2007 for projects aimed at fostering more fuel efficient locomotives, ships and other vehicles, as well as better use of traffic management systems. EBRD also supports the adoption of best practice in energy efficiency for airports and port terminals. These investments are expected to reduce CO_2 emissions by an estimated 600,000 tonnes per year.

IV. Types of Support and Instruments

43. Information from the Word Bank's PPI database indicate that most of the private sector participation in infrastructure occurs in greenfield projects, as opposed to concessions, management and lease contracts and divestitures of existing facilities (OECD, 2014a). There are also different modalities of participation for the private sector, such as: service contracts, concessions, design-build-operate-maintain, build-own-operate-transfer, build-own-operate, and so on. Furthermore, there is private infrastructure with a minimal public sector component as well as private investment in public infrastructure through PPPs, which normally require years of development and negotiation among various parties. These arrangements differ in their risk distribution between the public and private sectors. The CRS data do not provide the different types of private participation, but some information can be obtained from the PPI database.[21]

Loans and equity to finance the private sector for infrastructure amounted to roughly 15%.

44. DFIs generally use three main financial instruments to support private sector participation in infrastructure: loans, equity and guarantees. In some cases, they provide technical assistance in the form of advisory services as well. DFI loans are intended to address market failure by helping fill the gap between public aid and private investment in developing countries through investing in relatively high-risk projects where traditional commercial financiers are reticent to invest. DFIs aim for a demonstration effect by providing funds to projects that would otherwise lack resources, thereby sending important signals on financial viability to commercial investors to follow their example. DFIs also assume greater lending risks by offering long-term and junior loans that are less likely to be repaid compared to senior loans when the project fails. However, as these loans—used extensively by MDBs, PROPARCO, DEG and to some extent by BIO and Norfund—are mainly extended at conditions close to the market, they do not qualify as ODA in the current DAC statistical framework. Therefore, the DAC is currently exploring ways to further valorise them in the post-2015 framework, in view of their importance in the development finance landscape.

45. Equity investments are also used to support private sector participation in infrastructure by several bilateral DFIs, including FMO, CDC, BIO and Norfund, while others do not use it at all, such as OPIC. It can consist of either direct equity investment in an infrastructure-related company or investment in equity funds which raise additional finance from other DFIs and commercial investors. However, if equity investments are successful, they would count as negative ODA after reflows have been taken into account. Therefore, the DAC is currently discussing the potential to better valorise this instrument so as to incentivise the use, in recognition of its significant catalytic potential. While it is difficult to clearly distinguish the breakdown between loans and equity due to reporting issues, estimates suggest that in 2011, roughly USD 5.4 billion was disbursed as mostly either loans or equity to support private sector participation in infrastructure by donors covered in this study. This constituted approximately 15% of their combined ODF for infrastructure among those that finance the private sector. The DAC is currently discussing the establishment of more granular classification of financial instruments such as subordinated loans, blended loans, asset-backed securities, common equity, preferred equity, first-loss shares in structured investment fund, and so on (OECD, 2013c),

which would enable better analysis of the different types of instruments used when institutions report on them.

Guarantees mobilised on average USD 1 billion for infrastructure annually.

46. In addition to loans and equity, donors are increasingly expanding the use of risk mitigation mechanisms such as guarantees to catalyse private finance. Guarantees are sometimes matched with a loan or an equity investment, which acts as insurance in countries or activities rejected by commercial insurers. Guarantees for development often have better contractual terms than what private insurers offer in developed countries. For instance, coverage tends to be longer term with rates tailored to the risks typically associated with infrastructure projects, although political and regulatory risks are among the hardest to insure in private markets (Estache, A., 2010: 76).

47. According to a recent survey by the DAC, guarantees for development—which could cover commercial and/or political risks—mobilised an average of USD 1 billion per year for infrastructure projects between 2009 and 2011 by the donors in the survey (Mirabile, M. et al., 2013)[22]. At the same time, guarantees are not captured in the DAC statistical framework or in international financial statistics more generally as they are not financial flows.[23] In light of reforming the measurement of development finance to support the new Post-2015 agenda, the DAC is currently discussing the options of better capturing guarantees and other risk mitigation instruments, particularly the amounts mobilised, without double counting by different DFIs financing the same projects (OECD 2013d, OECD 2013e, OECD 2014b).

Box 8. Examples – Financial Instruments

- **EIB, IADB**, **IFC** and **PROPARCO** extended long-term loans and equity totaling over USD 253 million to TransJamaican Highway Ltd, a Jamaican company, to upgrade and extend Jamaica's only toll motorway. This was carried out to support a 35-year concession agreement of the company with the Jamaican government.

- Facilities of **PIDG** such as InfraCo Africa and InfraCo Asia shoulder much of the upfront costs and risks of early-stage infrastructure project development. Furthermore, GuarantCo is one of the few facilities that provide local currency guarantees which could mitigate exchange rate risks on loans and also encourage local financial institutions to provide local capital.

- **AsDB** supported the establishment of a USD 128 million facility to provide partial credit guarantees on rupee-denominated bonds issued by Indian companies to finance infrastructure projects. The guarantees will raise the project bonds to the AA level, which will enable domestic institutional investors to invest in the credit-enhanced bonds.

Long-term investment, Islamic finance, blending, and output-based aid are gaining attention.

48. Since the financial crisis, commercial banks are being restricted by new regulations such as Basel III which generally raise capital requirements that can lead to reduced amounts and tenors of their lending, thereby disincentivising long-term project finance for infrastructure projects. To meet the growing financing needs for infrastructure, development stakeholders are therefore increasingly looking towards alternative sources of finance, including long-term institutional investors (World

Bank 2013)—such as pension funds, insurance companies, and mutual funds—which held over USD 85 trillion in assets in 2012 (Della Croce, R. and J. Yermo, 2013). Faced with volatile stock markets and low-interest rates, infrastructure projects could provide institutional investors with long-term inflation-protected returns.

49. However, currently only a small share of total assets under management actually flows into the infrastructure sectors, particularly in LICs. Some barriers include lack of investor capability, suboptimal investment conditions in host countries, and the need to improve risk-return profiles that involve feed-in tariffs, user charges, and network pricing. More notably, long-term institutional investors have been reluctant to become involved because of uncertainty of the size, risk, return and correlations of the diverse asset class in infrastructure. Moreover, infrastructure assets also involve new types of investment vehicles, ownership issues, as well as the need to assess regulatory, political and environmental risks that are unfamiliar to fund managers (Estache, A., 2010:80).

50. In order to improve the supply of finance for infrastructure, specific measures need to facilitate long-term investment by institutional investors. These measures are reflected in the G20/OECD High-Level Principles on Long-Term Investment Financing by Institutional Investors presented in St Petersburg in September 2013 (OECD, 2013f). The Principles recommends, *inter alia*: governments to promote policies to support long-term savings; governing bodies of institutional investors to follow a prudent approach in its investment strategy; the financial regulatory framework for institutional investors to reflect appropriate risk characteristics; public interventions to avoid crowding out private investments; information on long-term investment to be shared; and financial education and awareness strategies to be put in place.

51. Furthermore, MDBs such as the IFC and AsDB have begun to operationalise investment by institutional investors in developing country infrastructure (see Examples below). Development partners could further play a pivotal role in attracting these investors to developing countries by helping the host countries improve the enabling environment as well as by developing new financial instruments, including guarantee mechanisms and subordinated debt that would allow institutional investors to access lower risk investment opportunities.

52. In addition, Islamic finance, which is compliant with Shariah—the Islamic moral code and religious law—is also gaining traction for its potential to fund infrastructure, particularly in Africa and the Middle East. As lending with interest is forbidden according to Shariah, Islamic finance is instead based on principles of risk-sharing or profit-and-loss sharing. For example, rather than providing a loan for a road construction project, the IsDB purchases and then leases the machinery and equipment needed by the client for a specified period of time. The procured assets remain the property of IsDB throughout the lease financing period. In addition to providing Islamic finance to the private sector, IsDB is assisting countries such as Senegal to issue infrastructure sukuks, which are Islamic government or private bonds.

Box 9. Examples – Long-Term Investment and Islamic Finance

- **IFC's** Asset Management Company manages funds on behalf of large institutional investors which allows them to expand their exposure to emerging markets while accessing IFC's pipeline projects and expertise. Of its six funds of approximately USD 6 billion in assets, the Global Infrastructure Fund makes equity investments in emerging market infrastructure. The **AsDB** is also investing USD 25 million in the Philippine Investment Alliance for Infrastructure fund, worth USD 625 million, with the rest of the funds being provided by the Dutch pension fund manager APG, Australia's Macquarie Group and the Philippine Government

Service Insurance System.

- **IsDB** collaborated with **IFC** and **World Bank** to establish the Arab Finance Facility for Infrastructure (AFFI) to attract private finance in infrastructure in low and middle income Arab countries. It includes a Private Window, aimed at providing finance to the private sector for both non-Shariah and Shariah compliant projects; the latter to which the IsDB provided USD 150 million. AFFI aims to address the lack of access to infrastructure in Arab countries, particularly in light of the recent political and economic upheavals throughout the region.

53. Furthermore, the blending of grants with loans, equity, or guarantees from public or private financiers is also becoming an important instrument for infrastructure as it reduces the financial risk of projects (European Commission, 2013). Currently, seven regional EU blending facilities, such as EU-Africa Infrastructure Trust Fund, are combining grants from the EC and EU member states with long-term financing in the form of loans or equity by DFIs and private financiers. At the same time, further information would be useful to gauge the extent to which existing EC blending has been to support the private sector (European Parliament, 2014:23).

54. Finally, by means of performance-based subsidies, Output Based Aid links the payment of aid to the delivery of basic services such as electricity, water and sanitation to poor communities. The delivery is contracted out to a third party—public or private—which then receives a subsidy to top-up or replace the user fees. Since the service provider is responsible for pre-financing the project, it takes on a significant amount of risks, as it will be reimbursed only after delivery and independent verification of the pre-agreed "outputs". Australia provided grants to the Global Partnership on Output Based Aid which has leveraged private finance in projects aimed at electrification in Africa and solid waste management in Nepal.[24]

V. Enabling Environment and Project Preparation Facilities

A larger share of support goes to the enabling environment for LICs and water and sanitation.

55. Many donors view improvements in the business climate as an essential prerequisite to private investment. This entails support to "upstream" aspects of developing countries' enabling environment, such as institutional and legal frameworks, as well as the skills of civil servants necessary for dealing with the private sector. The support is usually carried out by aid agencies, rather than DFIs by helping build the capacity of central government, PPP centres, inter-regional institutions for regional harmonisation, or local administrations for decentralised management. They may focus on specific sectors such as water or energy. Others try to help establish a well-functioning local capital market which is adequately regulated and supervised. Several donors facilitate south-south knowledge exchange on PPPs.

56. Furthermore, Investment Policy Reviews carried out in the Southern Africa Development Community (SADC) highlighted the need for host governments to, *inter alia*: avoid policy reversals; provide better protection from expropriation; establish independent regulators to oversee changes in tariffs; and ensure a level playing field between potential private investors and state-owned enterprises, which currently provide 80% of Africa's infrastructure OECD (2013b:4). A World Bank 2006-2010 survey among thousands of firms of different sectors also indicated that major obstacles to operations include more general issues such as corruption, crime, theft, disorder, customs and trade regulations, inadequately educated workforce, political instability, tax administration, and so on (IFC, 2011 :16).

57. In addition to providing support to the "upstream" aspect of the enabling environment, donors also engage in "downstream" support for the preparation of specific infrastructure projects, including providing advisory services or financing PPFs and feasibility studies. This may be carried out by DFIs or traditional aid agencies. For example, in helping establish "bankable" and long-term power purchase agreements with a creditworthy off-taker which could provide a predictable revenue stream, USA provides assistance to ensure that such agreements specifically lay out contract terms and risks such as foreign exchange, legal or regulatory changes, tariff schedule, and appropriate termination. In general, donors[25] allocate on average 15% of their infrastructure support to these "soft" types of activities, as opposed to directly financing the private sector or paying for the hardware of infrastructure.

58. While most of the support to the enabling environment is provided by aid agencies—which also work with private consulting firms, industry actors, and NGOs—funding is also channelled through multilateral programmes and funds, such as the Public-Private Infrastructure Advisory Facility (PPIAF) hosted by the World Bank or the Global Energy Efficiency and Renewable Energy Fund sponsored by the EU, Germany and Norway. In terms of regional distribution, more support is directed towards LICs for the enabling environment than direct finance to the private sector for infrastructure (see Figures 11 and 6). While difficult to measure, this is possibly because LICs require substantial improvements in their legal, institutional and regulatory frameworks to enhance more private or public investments in infrastructure. This is the same for sectoral distribution as support to the enabling environment for water and sanitation also receives more than the direct support to the private sector (see Figures 12 and 9).

Figure 11. Income level distribution to support to the enabling environment

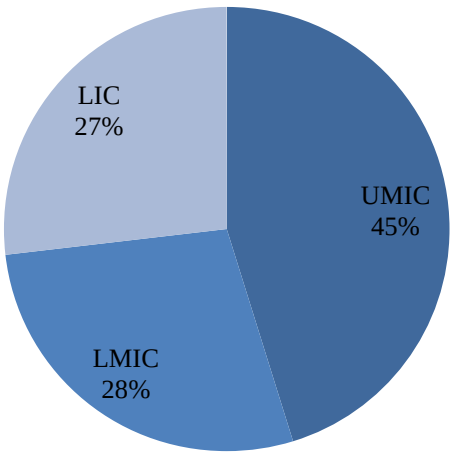
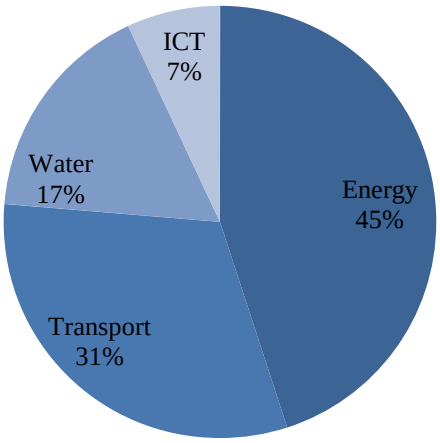


Figure 12. Sectoral distribution to support to the enabling environment



Source: CRS data in 2011 for all DAC Members, Kuwait (KFAED), OFID, Arab Fund (AFESD), EBRD, AfDB, IADB, AsDB, World Bank Group (IBRD and IDA), using ODA and OOF disbursements in the following categories: Water resources policy and administrative management (14010), Education and training in water supply and sanitation (14081), Transport policy and administrative management (21010), Education and training in transport and storage (21081), Communications policy and administrative management (22010), Energy policy and administrative management (23010), Energy education/training (23081), and Energy research (23082).

Box 10. Examples – Support to the Enabling Environment

- **Australia** is committed to help establish a PPP Centre in Indonesia and to assist the Ministry of Finance to build capacity in designing and managing PPPs for infrastructure. It aims to help establish such centres in other Asian countries as well.

- **Norway** supports the enabling environment for regional infrastructure by providing technical assistance to the Southern African Development Community secretariat to develop competitive electricity markets and harmonise transmission pricing through the Southern Africa Power Pool.

- **IADB's Multilateral Investment Fund** and the Economist Intelligence Unit developed Infrascope, an interactive index, to evaluate the capacity of 19 Latin American and Caribbean countries to implement PPPs in infrastructure. The index, which is published annually allows analyses of laws, institutions and practices that affect the enabling environment. **AsDB** and **EBRD** have also started producing Infrascopes for Asia and Europe, respectively.

Donors are supporting many PPFs, which is leading to proliferation.

59. In addition to the enabling environment, many donors emphasise the need to support the project preparation stage. Financing is provided primarily to PPFs, which is needed to increase the stock and quality of bankable infrastructure projects, as echoed by the G20 HLP (High-Level Panel on Infrastructure, 2011). The MDB Working Group on Infrastructure estimated that project preparation for complex PPPs can cost around 5-10% of the total project costs (MDB Working group on infrastructure, 2011). Most PPFs are hosted by MDBs or other multilateral institutions (Annex 1). Some donors create their own PPFs which usually support their domestic companies. While most multilateral PPFs provide financing and technical co-operation to all sectors of economic infrastructure, particularly for projects in Africa, there are some PPFs that are only active in one sector, such as the South Asia Water Facility hosted by the World Bank. On the other hand, some MDBs such as AsDB and IADB are helping to create national capacity to manage a centralised country-specific mechanism which would allow a more co-ordinated host government-wide approach to project preparation (See Examples).

60. Given the increasing prevalence of PPFs, the G20 HLP has cautioned against their proliferation, recommending instead to reduce the number and to consolidate funding and expertise. Furthermore, as PPFs are not sustainable—being dependent on grants from donors—the HLP has also proposed to structure them as revolving funds so that they would be repaid once the project reaches closure or becomes successful (High-Level Panel on Infrastructure, 2011). In response, the Infrastructure Consortium for Africa, housed in the AfDB, commissioned a comprehensive study of PPFs in Africa and is now in the process of creating a PPF Network. During its current presidency of the G20, Australia aims to explore the effectiveness of PPFs in Asia in promoting long-term investment financing for infrastructure, with the view to identifying appropriate G20 actions to increase infrastructure investment in LICs.

Box 11. Examples – Project Preparation Facilities and Platform

- **New Partnership for Africa's Development (NEPAD) – Infrastructure Project Preparation Facility** provides grants to African countries, Regional Economic Communities and specialised agencies to, *inter alia,* prepare viable regional infrastructure projects that could be financed from public and private sources (hosted by **AfDB**, and supported by **Canada, Germany, Norway, Spain, UK** and **USA**).

- **InfraFund,** established by the **IADB**, assists public and private entities in Latin America in the identification, development and preparation of infrastructure projects. With a capital stock of USD 69 million, it finances up to USD 1.5 million per project preparation. A fast-approval mechanism is in place for funding less than USD 500,000.

- **AsDB** supports the Project Development and Monitoring Fund—administered by the PPP Center of the Philippines and contributed by **Australia** (USD 18 million)**—**which is a revolving fund that tries to ensure the preparation of bankable PPP projects. The Fund has financed around 26 projects worth USD 6.5 billion. More in general, AsDB developed an innovative multi-user web-based platform, the International Systems for Infrastructure Support, which provides best practices through sector specific project preparation templates. The platform is now transforming into a global, multi-partner initiative with other MDBs, such as **AfDB, EBRD, IADB,** and **WBG**, as well as private sector participants and international organisations.

Domestic experience on PPPs and FDI restrictiveness could inform the approach for development.

61. Private sector participation in infrastructure—particularly through PPPs—is a relatively recent form of procurement in many countries, including in OECD countries. PPPs can actually represent substantial fiscal risks if the country is not 'PPP ready' or uses PPP for the wrong reasons. In this context, the OECD has developed the Principles for Public Governance of PPPs, which underline the importance of issues such as institutional capacity, value for money, and budgetary transparency (OECD, 2012c). The country must also offer a credible pipeline of projects and a sound investment climate to ensure sufficient competition in the market for the PPP contract.

62. Donor countries that have domestic experience in private participation in infrastructure should take them into account—success and failures—when promoting private sector participation in developing country infrastructure. This applies to countries including Spain and Portugal where the extensive use of PPPs led to overinvestment in domestic infrastructure. However, it is not clear whether most donor countries link their domestic experience with their views and approaches towards supporting private sector participation in developing country infrastructure. In particular, with a few exceptions (see Example), there is a disconnect between the branches of government dealing with development assistance and the institutions in charge of implementing PPPs for domestic infrastructure investment. Private participation in infrastructure can be complex, time consuming and subject to frequent renegotiation and restructuring. If certain modalities are hugely unsuccessful in OECD countries, careful analysis would be useful to determine whether they could succeed in less developed countries where cost recovery is more difficult. It would therefore be worth consolidating more lessons-learned from OECD countries, emerging economies, and developing countries on the different forms of private participation in infrastructure.

Box 12. Examples – Lessons Learned from Domestic Experience

- In the early 2000s, PPP investments reached over 1.2% of **Portugal**'s GDP, making it one of the largest European users of PPPs, particularly for infrastructure. Overly optimistic projections for usage volumes, interest rates and profitability by both the private and public sectors, however, led to over-investment in infrastructure PPPs. **Spain** was faced with similar challenges in renewable energy. **Germany** (OECD, 2010) has significant domestic PPP experience in sectors such as healthcare and education, but not extensively in economic infrastructure.

- **UK** and **France** have been significant users of PPPs for their domestic infrastructure market. Based on their experience, they have specialists in the Ministry of Finance who provide expertise on PPPs in developing country infrastructure on a fee basis. As for **Korea**, with 10-15% of public sector infrastructure investment taking place through PPPs (Burger, P. and Hawkesworth, I., 2011), it is trying to share its knowledge with developing countries through the Public & Private Infrastructure Investment Management Centre of the Korea Development Institute.

63. Furthermore, according to the OECD's 2013 FDI Regulatory Restrictiveness Index (OECD, 2013g), which measures countries' investment climate, some DAC donor countries are more restrictive in terms of foreign investors in the infrastructure sectors than ODA recipient countries. The indicators are assessed on criteria such as limitations on: foreign equity, approval mechanisms, employment of foreigners as key personnel, capital repatriation, land ownership, and so on. For example, Argentina and Malaysia are less restrictive than Norway and Korea in transport, South Africa and Brazil are less restrictive than Austria and Switzerland in electricity, and Egypt and Morocco are less restrictive than Canada and Australia in communications.[26] Therefore, in assisting developing countries improve the enabling environment for infrastructure investments, bilateral donors would need to be conscious of the constraints that partner countries may be facing, based on its own difficulties in opening up to FDI back home.

VI. Accountability, Transparency, Reporting and Measurement

Evaluation methodologies are shared, but commercial confidentiality limits access to results.

64. While a sub-objective for DFIs is to crowd-in profit-seeking commercial investors, their primary objective—by definition—is to contribute to sustainable development and poverty reduction. In order to know whether or not this objective is met, a clear results framework needs to be in place. Evaluations should therefore be carried out to test assumptions and to assess design, implementation and results based on the core development evaluation criteria: relevance, sustainability, effectiveness, efficiency and impact. In addition, evaluations are critical in assessing the additionally of official assistance: support to private actors should be given to viable investments—which otherwise would not secure financing due to perception of excessive risks—without crowding out the market.

65. CSOs point out that evaluation assessment tools developed by DFIs have several shortcomings, such as: information essentially collected by the benefiting company, lack of triangulation through independent sources; focus only on potential positive development; excessive emphasis on financial and quantitative aspects; and ex-post application on determined investment as opposed to prior to assessment of different investment alternatives (Reality of Aid, 2012:91). Key evaluation principles, including credibility, transparency and independence, are thus not being applied in this field. Despite the need for evidence, considerable enthusiasm among donors, and a large

number of programmes in the field, there appears to be something of an evaluation gap in the field of supporting private sector participation in infrastructure.

66. Some DFIs such as PROPARCO and Norfund have based their evaluations on a set of criteria developed by DEG, while CDC's evaluation system was based on the IFC's Development Outcome Tracking System. More recently, DFIs have been increasingly harmonising efforts—in October 2013, 25 DFIs, including MDBs, signed a memorandum to standardise development result indicators for private sector investment operations. The common indicators include, for example: energy delivered to offtakers in GWh; number of phone subscriptions; volume of water produced or wastewater treated; and number of passengers using transportation services (Sinha, S. et al., 2011).

67. Furthermore, a workshop in 2013 by the DAC Network on Development Evaluation and World Bank's Independent Evaluation Group identified key challenges around evaluating private sector support. Practioners and policy makers demonstrated keen interest to support informed dialogue by providing more and better evidence on what works and what does not in this field. In general, there is growing consensus on applying core DAC evaluation criteria for sovereign operations to private sector support, as opposed to developing separate approaches (OECD, 2013h).

68. Regarding transparency and accountability, though, public access to evaluations of individual DFI projects remains limited due to commercial confidentiality. In annual reports, DFIs such as FMO, BIO, Norfund, and EIB describe in a general way the efficiency and impact of their projects supporting the private sector. The information is sometimes accompanied by aggregate statistics from individual project evaluations, such as the number of people reached by the services or fiscal benefits to the government. However, only a few exceptional DFIs such as PIDG and CDC provide individual evaluation results on their websites. This may partially be due to the complexities of the results chain and attribution issues, as well as specific challenges with the collection of quality data on the private sector, which complicate evaluations. But it is mostly due to the private sector’s concern over loss of competitiveness resulting from financial disclosure and possible critical evaluation results.

69. The lack of transparency poses challenges in adequately assessing the extent to which official support to private sector participation in infrastructure contributes to the overarching goal of sustainable development as well as provides additionality. It also reduces the opportunities to learn from experience and share lessons among institutions through comparing financing approaches and effectiveness. In this context, the 2013 G8 Summit in Lough Erne called for more transparency with respect to DFI activities (G8, 2013).

Box 13. Examples – Evaluation Systems and Public Scrutiny

- **DEG** uses a Corporate-Policy Project Rating system which evaluates: financial sustainability; return on equity; additionality; and developmental effects. According to its 2012 annual report, 74% of DEG's projects were evaluated as either "very good", "good" or "fully satisfactory" in the composite rating of all four indicators. **PIDG** estimates development impact of a project (e.g. mobilised capital, additional employment, alignment with national development plans) at the time of commitment, which will then be assessed when the project becomes operational. PIDG provides an extensive list of case study projects on its website, which include information on outcomes and impacts such as job creation, fiscal benefits to the host country, and number of new beneficiaries connected to the service.

- The British Parliament raised questions regarding **CDC**'s lack of additionality and weak focus on poverty impact of its investments since 2008 (House of Commons of the United Kingdom Parliament, 2011). As a result, CDC underwent a strategic reform in 2011 to focus exclusively on poor countries in South Asia and Africa (House of Commons of the United Kingdom Parliament, 2011). Eurodad also reviewed the activities of **BIO** (11.11.11, 2012)[27]**, CDC, Cofides, DEG, FMO, Norfund, Proparco, Sofid**, and other European DFIs. It recommended DFIs to, *inter alia*: align to developing countries' investment priorities; make development outcomes the overriding criteria for project selection; target local companies; and improve transparency (Kwakkenbos, J., 2012).

- A study commissioned by the **European Parliament** issued in April 2014 also concluded that—although not limited to infrastructure—leveraging private finance has faced many problems including in proving additionality, intransparency, lack of developing country ownership, and poor evidence of development impact (European Parliament, 2014).

Reporting and measurement of funding to the private sector need to be improved.

70. There are several challenges concerning development finance statistics and reporting related to infrastructure. First, project descriptions in the CRS are generally not very informative, although there are exceptions (see Examples). Moreover, donor reporting to differentiate between disbursements to the private and public sector is imperfect as the current "channel of delivery" code in the CRS does not specify a separate entry for private sector actors. Categorisation between sovereign and non-sovereign activities is also missing. In addition, it would be useful to identify the country of origin of the private actors that are being supported, given CSO claims that the support is disproportionally directed to domestic businesses and large multinationals. Furthermore, resources aimed at improving the enabling environment may be undercounted because some donors report their funding at a highly aggregated level—i.e., they include capacity building and technical co-operation activities as part of their support to the hardware of infrastructure without identifying them separately.

Box 14. Examples –Reporting to the CRS

- **AfDB** clearly designate their non-sovereign lending disbursements in the CRS, although project descriptions need to be filled.

- **OPIC** provides detailed reporting on private sector support to the CRS, including project descriptions with names of the private enterprises that are supported. For instance, in 2011 OPIC disbursed a direct OOF loan to Contour Global for a coal-fired power plant project in Togo (USD 22 million) and another one to Sustainable Energy Services Afghanistan (USD 0.5 million) for a solar project.

- Project descriptions of **Norfund** indicate that in 2011, they provided equity investment as ODA to SN Power, a company owned by the Norwegian state entities Statkraft and Norfund (USD 78 million) for hydropower projects in Brazil, the Philippines, Kenya and Chile. It also reported equity investment for Agua Imara—a member of the SN Power Group focused on renewable energy in developing countries—for hydropower projects in Zambia and Panama (USD 24 million).

71. To date, there is no harmonised approach to measure leveraging, i.e. amounts of additional commercial capital mobilised by official support. Therefore, the totality of leveraged flows cannot be estimated or compared across DFIs or financial instruments in a meaningful way. Moreover, some DFIs do not make publicly available details of the leveraging effect of their projects. Where information on leveraging effects is available, there seems to be double counting at the aggregate level. In other words, to a large extent, amounts leveraged by DFIs consist of funds by other DFIs, MDBs or bilateral aid agencies, with commercial financiers contributing less.[28] This may raise questions regarding the effective degree of financial additionality of DFIs collectively in trying to leverage private resources for infrastructure. Finally, given ECAs' role in private participation in developing country infrastructure, it is important to capture the relevant activities within the framework of development finance, which will enable a more transparent and informed approach among relevant official funds, with a view to maximise development impact.[29]

VII. On-Going Activities and Remaining Issues

Actions are need for better co-ordination, statistics, evaluation, and accountability.

72. The above provided an overview of donor support to private sector participation in infrastructure, highlighting trends as well as emerging issues. There are already on-going activities that are addressing some of the issues identified, which may go beyond the infrastructure sectors.

- Case studies in Africa and several other regions are being carried out that could provide insights into the role played by bilateral and multilateral donors in supporting private sector participation or leveraging private resources for infrastructure.

- The DAC is trying to improve reporting by donors on development finance beyond traditional aid, such as: non-concessional loans and equity provided to the private sector for development; measurement on leveraging effects (e.g. by guarantees); and better identification of the type of recipient institutions (e.g. sovereign vs. non-sovereign). Furthermore, DFIs are being encouraged to improve the coverage and level of detail of their CRS reporting. There is also on-going work with relevant OECD bodies to better capture export credits and FDI to developing countries.

- DAC Peer Reviews, which have started to examine development finance more systematically, is covering activities by DFIs and ECAs more prominently in the reviews to reflect their growing role within the broader development landscape.

- The DAC Network on Development Evaluation—working with the Evaluation Co-operation Group of the MDBs—is sharing findings and exchanging lessons from experience in evaluating private sector support. It is looking at: covering activities to support the private sector in existing development evaluation portfolios; encouraging robust approaches to results management; and improving transparency. More could be done to support credible evaluation analysis of private sector support while managing the need for commercial confidentiality—for example, by making anonymised evaluations available to the public or by assessing performance across several projects in a generic way that does not reveal confidential information.

73. Given the increasing number of relevant institutions and financial instruments to support private sector participation in development, the DAC could further address some of the issues identified, such as on:

- Enhancing exchange of information and co-ordination among aid agencies, MFAs, DFIs and—where appropriate—ECAs on funding specific projects, particularly based on partner country priorities.

- Standardising, monitoring, and making more transparent the activities by DFIs, including measuring additionality of their support to the private sector for development.

ANNEX
PROJECT PREPARATION FACILITES

Project Preparation Facility	Regions	Sectors	Hosts/ Contributors (*inter alia*)
Public Private Infrastructure Advisory Facility (PPIAF)	All	All	Hosted by the World Bank. Contributions from Australia, UK, USA, and World Bank.
Infrastructure Development Collaboration Partnership Fund (DevCo)	All	All	Hosted by the World Bank (IFC). Contributions from IFC, Netherlands, and UK.
Infrastructure Crisis Facility-Debt Pool (ICF-DP)	All	All	Part of PIDG. Contributions from Germany.
PIDG Technical Facility	All	All	Part of PIDG. Contributions from Austria, UK, Netherlands, Ireland, Switzerland, Sweden, IFC, and AsDB
Preparatory Survey for PPP Infrastructure Programme	All	All	Hosted by JICA. Contributions from Japan.
Energy Sector Management Assistance Program (ESMAP)	All	Energy	Hosted by the World bank. Contributions from Australia, France, Germany, Japan, Netherlands, Norway, and UK.
Global Infrastructure Project Development Fund	All	Energy, Transport	Hosted by the World Bank (IFC).
Africa 50 Fund	Africa	All	Hosted by AfDB.
African Development Fund Project Preparation Facility (ADF-PPF)	Africa	All	Hosted by AfDB.
Fund for African Private Sector Assistance	Africa	All	Hosted by AfDB.
New Partnership for Africa's Development Infrastructure Project Preparation Facility (NEPAD IPPF)	Africa	All	Hosted by AfDB, Contributions from Canada, Germany, Norway, Spain, UK and USA.
New Economic Partnership for Africa's Development Project Preparation and Feasibility Study (NEPAD PPFS)	Africa	All	Hosted by AfDB. Contributions from France.
South African Development Community Project Preparation & Development Facility (SADC PPDF)	Africa	All	Part of SADEC. Contributions from Germany, European Union.
EU-Africa Infrastructure Trust Fund (EU-AITF).	Africa	All	Hosted by EIB. Contributions from Belgium, European Commission, France, Germany, Netherlands, Portugal, Spain and UK.
InfraCo Africa	Africa	All	Part of PIDG. Funding donors are Austria, UK, Netherlands and Switzerland.
USAID Africa Infrastructure Program (AIP)	Africa	All	Hosted by USAID. Contributions from USA.
Geothermal Risk Mitigation Facility for Eastern Africa	Africa	Energy	Hosted by the African Union Commission. Contributions from Germany.
Green Africa Power	Africa	Energy	Part of PIDG. Contributions by Norway, and UK.
Sustainable Energy Fund for Africa	Africa	Energy	Hosted by AfDB.

African Water Facility (AWF).	Africa	Water	Hosted by AfDB, Contributions from Australia, Canada, France, Norway, Spain, UK and European Commission.
Arab Financing Facility for Infrastructure Technical Assistance Facility	Middle East and North Africa (MENA)	All	Hosted by IsDB. Contributions from IBRD, IFC, and IsDB.
The Development Bank of Southern Africa – European Investment Bank Project Development and Support Facility (DBSA-EIB PDSF)	Southern and Eastern Africa	All	Contributions from EIB and DBSA.
Project Preparation Implementation Unit (PPIU) – (part of Trademark Southern Africa programme)	Southern and Eastern Africa	All	Hosted by DBSA. Contributions from DFID.
InfraCo Asia	Asia	All	Part of PIDG. Funding donors are UK, Switzerland and Australia.
South Asia Water Initiative (SAWI)	Asia	Water	Hosted by the World Bank. Contributions from Australia, Norway, UK, and World Bank.
Project Development and Monitoring Fund	Asia (Philippines)	All	Supported by AsDB and funded by Australia
EU-Latin America Investment Facility (LAIF).	Latin America	All	Hosted by the European Commission. Contributions from France, Germany, IADB, Portugal, and Spain.
Inter-American Development Bank Regional Infrastructure Integration Fund	Latin America	Transport	Hosted by IADB. Contributions from Canada, and USA.
EU Neighbourhood Investment Facility (NIF).	Europe, North Africa, Middle East, Central Asia	All	Hosted by the European Commission. Contributions from EBRD, France, Germany, Portugal, and Spain.
EU Western Balkan Investment Framework	Europe	All	Hosted by the European Commission. France, Germany, Netherlands, Norway, and Spain.

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ENDNOTES

1 Official Development Finance consists of the sum of bilateral Official Development Assistance (ODA) and developmental Other Official Flows (OOF), as well as concessional and non-concessional resources from multilateral sources. Thus it only includes non-export-credit OOF. Since a large share of lending operations by Multilateral Development Banks is non-concessional (hence not ODA), ODF better represents the reality of support to infrastructure.

2 Here, infrastructure includes water & sanitation, transport & storage, energy, and information, communication & technology. It corresponds to the sectors 140 (water & sanitation), 210 (transport & storage), 220 (communications), and 230 (energy generation and supply) in the DAC Creditor Reporting System.

3 Output 5.1.4.3.2 of the DAC Programme of Work and Budget 2013-14 on Aid for Infrastructure Investment

4 This is includes multilateral concessional flows.

5 See endnote 4 for definition of Economic infrastructure.

6 Estimates of infrastructure financing gap in different regions are provided in Kingombe C. (2011), "Mapping the new infrastructure financing landscape", Background Note, Overseas Development Institute, http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/6311.pdf

7 See endnote 1 for definition of ODF.

8 This increase is due to both growth in ODF disbursements by development partners that disbursed throughout 2002-2011, as well as an increase in the number of reporting development partners.

9 Multilateral donors are the World Bank, AfDB, AsDB, EBRD, IADB and IsDB. The EU, a DAC member with its own sources of financing and budgetary authority, is also included here, although it has a sui generis legal nature.

10 Based on estimates from Development Initiatives (2013)

11 The figure is not significantly different from the roughly USD 7.8 billion for infrastructure commitments by 31 DFIs in 2009 ; see IFC (2011:37).

12 However, in 2011, Spain provided the entirety of its support for private investment in infrastructure through its Corporate Internationalisation Fund (FIEM), also aimed at promoting Spanish businesses abroad, including in the infrastructure sector of developing countries.

13 For more details on the Arrangement on Export Credits please see: http://www.oecd.org/tad/xcred/arrangement.htm

14 Data from the power point presentation by the ECG Secretariat made at the OECD Advisory Group on Investment and Development meeting of 21 March 2013.

15 According to the CRS Database, in 2010 bilateral ODF commitments for infrastructure for ODA recipient countries amounted to USD 47 billion. To be comparable with the ECA data, ODF commitments by the European Union, which does not have an ECA, was not included.

16 The amount of activities to LICs was derived from Table 10a in OECD (2008). Special Drawing Rights are converted into USD using the average exchange rate for 2010. This estimate totals Official Export Credits for 2010 in the following categories: Water Supply and Sanitation (All), Road Transport (Infrastructure), Water Transport (Infrastructure), Communications (All), Energy Generation and Supply (All).

17 FMO does not report projects to the CRS for the moment. However, the Ministry of Foreign Affairs provided data to the Secretariat on FMO's disbursement to infrastructure in 2011 for this study.

18 According to PIDG, since it does not report to the DAC CRS.

19 See for example Ono, K., (2013) "Abe oversees Japan's 1st nuclear plant export after 2011 disaster", *The Asahi Shimbun*, 30/10/2013 http://ajw.asahi.com/article/behind_news/politics/AJ201310300043

Mundy, S. (2014), "South Korea cuts target for nuclear power", Financial Times, 14/01/2014 http://www.ft.com/intl/cms/s/0/4e8c1872-7cf7-11e3-81dd-00144feabdc0.html?ftcamp=published_links%2Frss%2Fworld%2Ffeed%2F%2Fproduct#axzz2r2DnNYTZ

20 Since 1998 the DAC has been monitoring aid targeting the objectives of the 1992 Rio Climate Conventions through the CRS using the so called "Rio markers": Biodiversity; Climate Mitigation; Climate Adaptation and Desertification. Every aid activity reported to the CRS should be screened and marked as either (i) targeting the Conventions as a 'principal objective' or a 'significant objective', or (ii) not targeting the objective. MDBs do often not use Rio markers in their CRS reporting due to methodological issues. Aside from intentions, the actual extent of support by DFIs to green infrastructure is difficult to analyse since—of those reviewed in this study—only BIO, CDC and Norfund indicate the Rio markers in their reporting to the DAC's Creditor Reporting System (CRS). Currently a separate exercise is being conducted in the DAC on improving the Rio Markers and examining overall aid to green infrastructure. Therefore, the more general issue of how to enhance green investment including for the transport sector is expected to be addressed there.

21 These modalities are explained in the Annex II of OECD (2014a)

22 USD 3 billion from 2009-2011 is an aggregate of the categories "Infrastructure" and "Energy Generation and Supply" (Figure 6, p.7)

23 A proposal for collecting data on guarantees for development on a regular basis is currently being discussed.

24 However, there was no reporting of the GPOBA to the CRS in 2011.

25 These include all DAC members as well as other multilateral institutions beyond the main 22 donors covered in this report.

26 However, the index does not account for monopolies which are not discriminatory towards foreigners. Therefore, there may be cases where the country with a monopoly in a sector will appear as more open to private investment than other countries with some restriction on foreign investment. This can be particularly important in the infrastructure sectors.

27 BIO was assessed separately by the 11.11.11 NGO.

28 The DAC Working Party on Development Finance Statistics is currently working on establishing a methodological framework to better capture the measurements.

29 Currently, ECAs report their operational data to the ECG on a confidential basis. However, as recent data on their financing are expected to be made available to the public soon, this should help in obtaining a clearer picture of their contribution and role in developing country infrastructure.

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BETTER POLICIES FOR BETTER LIVES