

2011

Annual Report 2011

AusAID- World Bank South Asia
Infrastructure for Growth Initiative

South Asia Region
The World Bank Group



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ANNUAL REPORT 2011

AusAID-World Bank South Asia Infrastructure for Growth Initiative

1. BACKDROP

Closing the infrastructure gap in the South Asia Region (SAR) continues to remain a critical need. The region is home to the largest numbers of people living below the poverty line and to some of the fastest growing populations in the world. The proportion of people living on less than US\$1.25 a day has decreased by only ten percent between 1990 and 2005, while the population has grown by 30 per cent over the same time. Economic growth while generating additional revenue and increasing fiscal space, has put immense pressure on the demand for infrastructure especially as the rate of urbanization continues to rise. This infrastructure gap is likely to become a serious bottleneck for growth and the Bank's flagship study "Can South Asia Close its Infrastructure Gap?" partly funded by the IFGI trust fund (TF) estimates that \$1.7 to \$2.5 trillion of investment is needed to close this gap.

The study also found that the region's demand for infrastructure will continue to increase. Since 1990, SAR has enjoyed the second highest economic growth behind only East Asia and Pacific (EAP) led by China. Access to infrastructure services lags behind other regions of the world. The only exception is in the access to water. There are considerable variations between countries in the region, within countries and among the sectors. Where there is access, the quality of service is extremely poor. South Asia tops the world with 42 power outages on average per month compared to 14 in the Middle East and North Africa (MNA), the next worst performing region.¹ While South Asia's water supply fares better than other sectors, the quality and quantity is in question. South Asia still averages 21 water shortages every month, whereas Sub-Saharan Africa (SSA) averages only 7.² Poor roads, unreliable and costly road transport services and congestion are serious problems, depressing trade, production, and labor mobility.³ Given this, investments along with major sectoral reforms are needed for more, better and sustainable infrastructure services in SAR.

Since 2008, the AusAID's Infrastructure for Growth Initiative in the South Asia Region (SAR IFGI) in partnership with the World Bank has supported infrastructure delivery in South Asia to the tune of AUD19.5 million. The objective of the trust fund is to foster an enabling environment for infrastructure delivery and to improve infrastructure delivery in the region. The initiative covers energy, transport, irrigation, urban development, water and sanitation and telecom sectors. The countries covered are Afghanistan, Pakistan, Nepal, India, Bangladesh, Bhutan, Maldives and Sri Lanka.

To understand the performance of the TF in 2011 it is essential to consider it in the context of events in the region that impacted infrastructure delivery and sector reforms. The year under consideration was a mixed bag with continued violence in Afghanistan and Pakistan and the aftermath of violent conflict in Nepal and Sri Lanka. Natural disasters and political uncertainty continued to plague the region. Pakistan suffered from earthquakes and floods and a political stand-off between the civilian administration and the army. Afghanistan remains under the threat of increasing violence with no political deal with the Taliban. In Sri Lanka an increasing number of displaced persons returned home with their future still not clear while talks of increased devolution have not led anywhere so far. There was however light at the end of the tunnel with political parties in Nepal reaching an agreement on the contentious issue of the rehabilitation of the former

¹ Enterprise surveys, The World Bank - <http://www.enterprisesurveys.org/>

² Ibid.

³ Jerome (2005), "The Role of Infrastructure in Employment, Productivity, and Urban-Rural Transition," The World Bank.

Maoist fighter in the waning months of the year. This will pave the way it is hoped for agreement on the new federal structure and a new Constitution delayed since May 2010. The Bank has been maintaining a low footprint in Nepal while still going ahead with projects. In India a new national debate on transparency and corruption in the use of public resources became prominent. It is no surprise that the 7th billionth baby in the world was declared by the UN as born in India reinforcing the image of a large and growing population in the region. There seemed to be an increasing recognition of the impacts of climate change with India, Nepal, Bangladesh and Bhutan convening a Climate Change Summit for a Living Himalayas in November 2011. The region remains a difficult one in terms of delivery of development outcomes. It was against this backdrop that the task teams took forward the activities funded by the TF.

On the partnership front, the reporting period witnessed increased communication between the Bank and AusAID helping to strengthen the relationship between the two partners. There were three visits to Canberra by senior SAR management in 2011. The first in May 2011 was a visit by the Sector Director, Sustainable Development Jack Stein. This was followed by visit in August 2011 of the Vice President, Isabel Guererro and finally in November 2011, by the visit of the Sector Director, Human Development, Michal Rutkowski. These exchanges point to the increasing importance given to the partnership by the region. At the program level close coordination was maintained both with Canberra and the Posts in the region. The Country Manager, India AusAID Gopal Menon who also helps oversee the regional TFs with AusAID was briefed on issues in their respective sectors by the Sector Manager for Urban and Water and Sanitation, Ming Zhang, for Transport, Michel Audige and for Energy Jyoti Shukla. The program administrator Tara Sharafudheen met with the AusAID Country Managers and Counsellors at the India, Bangladesh and Sri Lanka Posts for Annual Portfolio Reviews. In an effort to build a seamless partnership with the Posts task teams have been briefing the Posts from time to time on tasks funded by AusAID TFs. In line with this in India and Bangladesh the Task Team Leaders briefed the AusAID Country teams on tasks funded by the IFGI TF. In addition the Director, South Asia Brek Batley and the Regional Counsellor South Asia, Mark Bailey participated in the Impact Evaluation workshop organized in Dhaka by the region.

2. FINANCIAL SUMMARY

2.1 Funds Received and Allocated

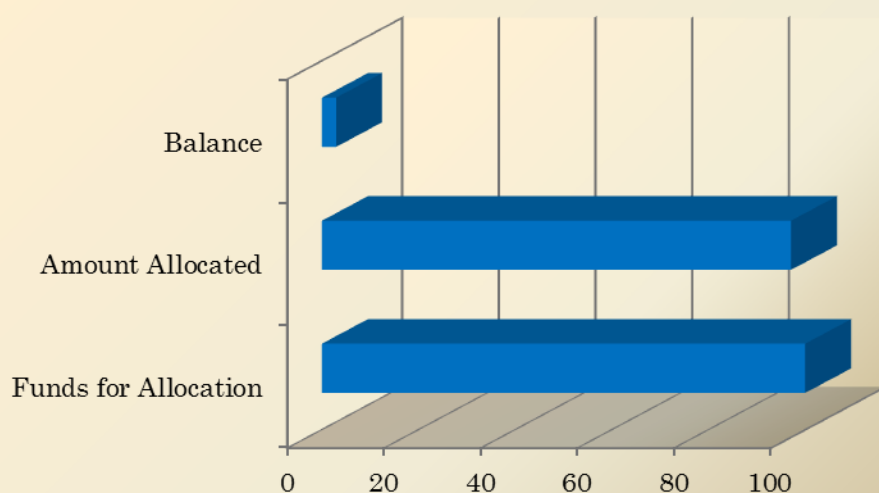
A total of AUD 19.5m has been received as contributions from AusAID after the TF became operational in April 2008. It has to be noted that no allocations were received in 2009, against an anticipated tranche of AUD 10 million. Of this \$16,886,867 was available for allocation, after deduction of the administration fee and funds set aside for program management costs. An amount of \$ 16,388,679 or 97% of the funds have been allocated in five rounds to 69 activities so far. The remaining 3% which constitutes balances from closed TFs is in the process of being reallocated. The allocation by sector and country is given below. This includes an amount of AUD 2.5m received in 2011 to fund activities in the Water and Sanitation sector. **Table 1 Amount Received and Allocated** below shows receipts and allocations to date while **Figure 1 Funds Allocated** gives allocations as a percentage of the total funds.



Table 1- Amount Received and Allocated as of January 3 2012

		AUD	USD
1	Total Contributions	19,500,000.0	18,064,150.0
2	Less Admin Fee of TF Unit (2%)		361,283.0
3	Amount Available to Department (1-2)		17,702,867.0
4	Less Program Management Costs		816,000.0
5	Amount Available for Allocation (3-4)		16,886,867.0
6	Amount Allocated -Rounds 1-5		16,388,678.7
	Balance (5-6)		498,188.3

Figure 1: Funds Allocated in %

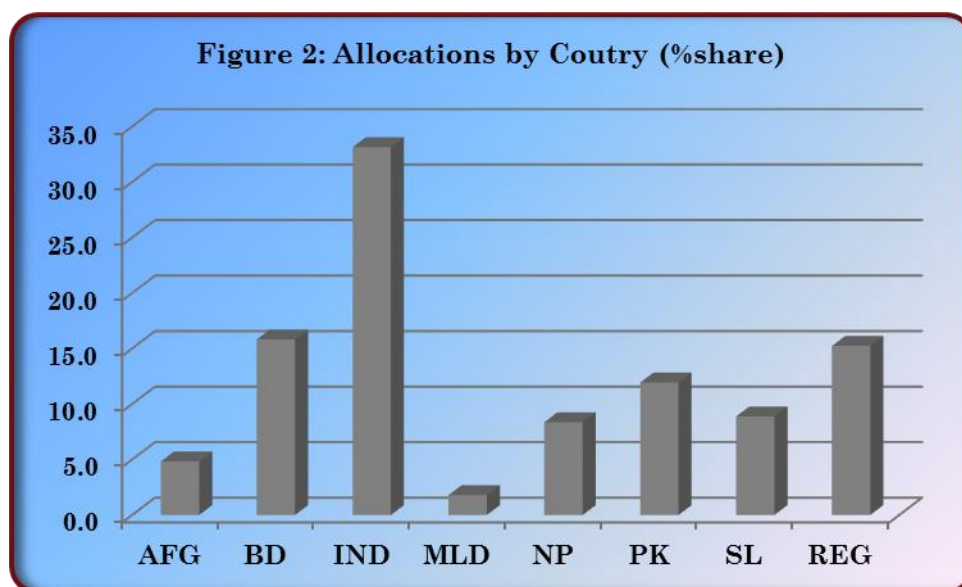


2.1.1 Allocations by Country

Infrastructure related activities have been funded in seven of the eight countries in the Region excluding Bhutan. Countries with activities funded are Afghanistan, Bangladesh, India, Maldives, Nepal, Pakistan and Sri Lanka. Refer to **Figure 2 Allocations by Country**. The Trust Fund stipulates that at least 60% of the resources be allocated to India, Pakistan, Afghanistan, Bangladesh and Sri Lanka. These groups of five countries have received the major share or 74.6% of total allocations. In terms of the percentage share of allocations, India received 33.1%, Bangladesh 15.8%, Pakistan 11.9%, Sri Lanka 8.9% and Afghanistan 4.8%. Nepal and Maldives the two countries that do not fall in this category received 8.4% and 1.6% of allocations. Besides this another 15.2% of allocations were regional in nature covering more than one country. Allocations to regional activities have increased substantially from 5% in the last reporting period.



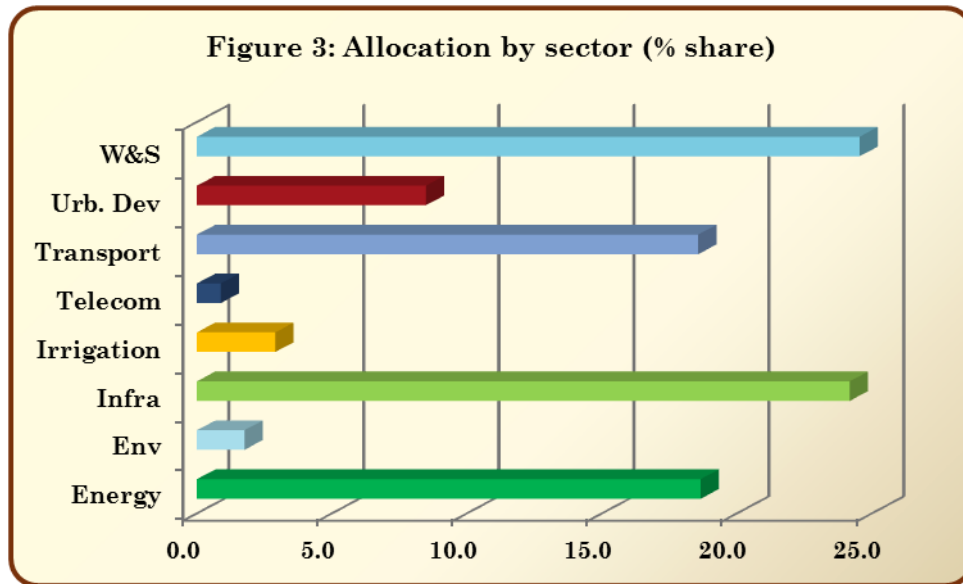
During this period the allocations to India, Pakistan, and Afghanistan have been reduced as a portion of total allocations. This reflects the difficult operating environments in the last two countries and in the case of India, the increasing share of other countries in the pie. Countries with increased allocations as a percentage of the total are Bangladesh and Nepal from 13.7% and 4.3% to 15.8% and 8.4% while Sri Lanka increased its share by a small margin from 8.6% to 8.9%. In terms of the number of activities funded by country out of the total of 69, India has 27, Bangladesh 9, and Pakistan, Nepal, Sri Lanka 6 each/. Afghanistan has 5 activities funded; Maldives has only 1, while regional activities are 9.



2.1.2 Allocation by Sector

The sectors funded are energy, transport, urban development, water and sanitation, environment and irrigation as reflected in **Figure 3 Allocation by Sector** below. Activities that are cross-sectoral or/and regional in nature have been classified under the broad label of infrastructure. It should be noted that for the first time earmarked contributions of AUD 2.5 million for water and sanitation were received in 2011. As a result the share of water and sanitation as a percentage of allocations has leapt from 6.9% in the last reporting period to 24.5%. The next biggest chunks of allocations were to regional and cross sectoral infrastructure at 24.2%. Energy and transport received almost equal shares at 18.7% and 18.6%. This was followed by urban development 8.5%, and irrigation 2.9%. Environment and telecom with one task each got smaller shares of 1.8% and .9%. The number of activities funded largely reflects the funding pattern with the largest number in water and sanitation of 17, followed by infrastructure and transport with 15 each. Energy has 9 activities funded, and urban development 7. The rest have been apportioned between irrigation with 4 and environment and telecom with one each.





2.1.3 Allocation by Activity

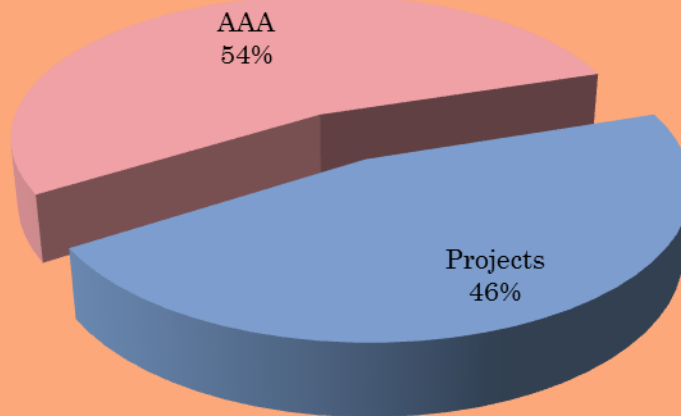
The TF agreement stipulates that resources be divided between lending support, appraisal and supervision (50%), regional analytical work (25%) and country specific analytical and policy studies (30%). It also states that 25% of the grants be made to capacity building activities in low capacity environments of fragile states and sub-national governments.

2.2 Lending and Analytical Activities

Lending preparation, appraisal and supervision received 46% of funds allocated. Analytical studies constitute 54% of allocations. See **Figures 4 Funding by Lending and Analytical Activities and 5 Supports to Low Capacity Environments**. Of this regional Analytical, Advisory Activity (AAA) was 14% while country specific analytical and policy work was 86 %. AAA includes Non Lending Technical Assistance (NLTA) or technical assistance that does not involve lending. A number of capacity building activities fall under this category. Project preparation activities under lending development also include analytical studies that went into the preparation of projects.



Figure 4: Lending and Analytical Activities (% share)



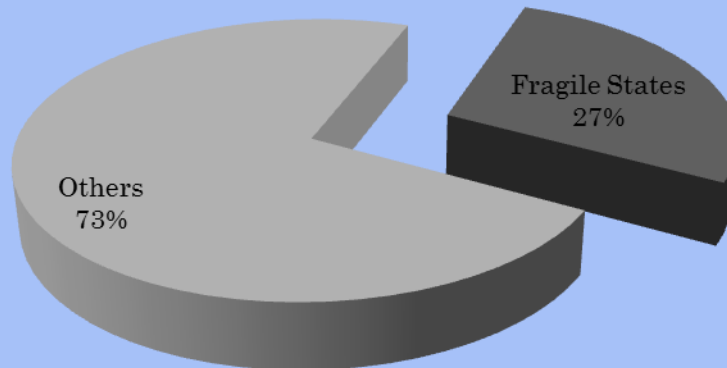
2.3 Support for Low Capacity Environments

Funds allocated to fragile states and sub-national governments accounted for 27 % of allocations. The low capacity of fragile states and of sub-national governments in South Asia remains a significant bottleneck for development. All the work funded in Afghanistan supports capacity building in a fragile state. This includes building the capacity of the government's Technical Support Department (TSD) for technical supervision of infrastructure built under the multi-donor National Solidarity Program and training of provincial management units. Among tasks funded in Afghanistan include examining ways to link private providers providing water in Kabul with the planned utility, so that private sector capacity is not crowded out. Assessing the feasibility of the Salang tunnel and creating a baseline for the impact evaluation of the National Emergency Rural Access Program are the other activities funded in Afghanistan.

On the sub-national government front this includes reinforcing the capacity of local governments for Integrated Solid Waste Management (ISWM) and Water and Sanitation (W&S) reforms. In megacities in the region it includes improving the institutional environment for managing these megacities (Mumbai, Delhi and Dhaka) through organizing and strengthening a coalition of stake holders to take informed action and suggest infrastructure investments. It also funded pilots that built the capacity of urban local governments to manage climate friendly and innovative urban transport technologies. This activity also includes community monitoring and evaluation of transport delivery through Citizen's Score Cards.



Figure 5: Support for Low Capacity Environments (as % share)



Addressing the institutional capacity for service delivery in emerging towns in Sri Lanka, Nepal and Bangladesh and supporting an M&E framework for assessing urban service delivery in Tamilnadu state in India are the other tasks supported in the urban sector. A competitive assessment of urban growth in the Kathmandu metro region and an examination of coping costs due to the lack of investment in water supply were also funded.

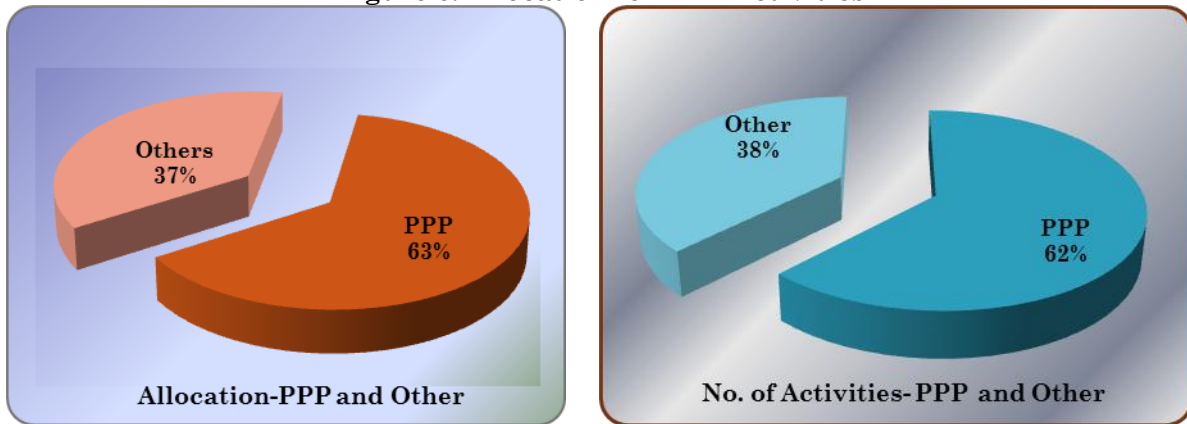
2.4 Public Private Partnerships (PPPs)

Activities supporting PPP have been funded in all the countries and sectors to which allocations have been made. Allocations to these PPP related tasks are 62 % of total allocations. Of the 69 activities funded, 43 support PPPs in infrastructure in some form. See **Figure 6 Allocation for PPP Activities**.

The number of activities that have PPPs as their main focus increased from five to nine over the last period. **Annex 2 PPP Activities Funded** provides detailed allocations by country and sector. These include support to the development of a PPP framework in Pakistan, building capacity for PPPs in India, and supporting PPPs for supplying drinking water to Kabul in Afghanistan. It has also facilitated the first successful privatization of the airport in Maldives. The new tasks funded include a PPP Options study for the first high speed Dedicated Freight Corridor of the Indian Railways and a study of the PPP experience and key cross cutting issues in India to inform the Bank's work program and Government of India's PPP policy.



Figure 6: Allocation for PPP Activities

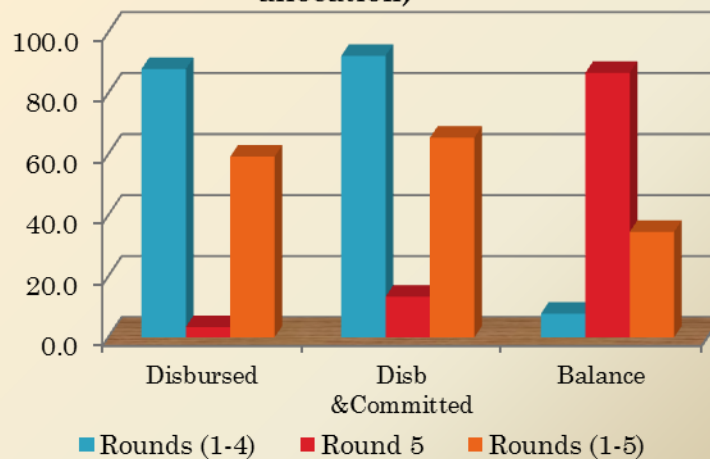


3. DISBURSEMENTS AND COMMITMENTS

The TF is continuing to disburse well and there are no problem activities. Disbursements overall are at 59% of allocations. However if you exclude Round 5 to which allocations were made as recently as November-December 2011 disbursements are at 88% of allocations.

If we take into consideration commitments or funds under contract to be disbursed at the completion of tasks, together with disbursements the picture is even better. **Total disbursements and commitments for the five rounds as of January 3, 2012 was 66% of allocations.** These amounts need to be disaggregated to get the true picture since allocations for Round 5 are recent. If we take out this round then the figure is at 92%. Refer to *Figure 7 Funds Disbursed and Committed*. By any gauge of performance this is an excellent result.

Figure 7 : Funds Disbursed & Committed (as % of allocation)



Activities in Round 1 have been completed while in Round 2 the remaining two activities will close in February 2012. Half the activities in Round 3 have also been successfully completed and the rest are expected to close in this FY. Round 4 and 5 will close in the next FY. Annex 1 *Summary of Disbursements and Commitments* provides details for each activity funded.

4. PROGRAM MANAGEMENT

The strong performance of the TF can, to a large extent, be attributed to the strategic management of the TF. A proactive approach is taken at every stage from selection of proposals for funding to support for task teams whose activities are funded, to oversight of activities funded. The program administrator holds regular discussions with Sector Managers and the Operations Manager for the department to identify high value activities for funding. This enables early identification of a potential pipeline of activities for funding. The program administrator then works with task teams to strengthen each proposal to meet the objectives of the TF. Considerable thought is given to this so that proposals meet the objectives of the TF and offer maximum leverage and additionality. The Task Team Leaders (TTLs) are assisted in strengthening their proposals to meet the objectives of the TF. This assistance has been much appreciated by task teams and managers. At this stage proposals are reviewed to check whether these have the support of Bank management and the client. Activities have to be a part of the Bank's active work program. Stand alone or one off tasks or activities not supported by clients are not funded. This is to ensure that tasks once funded will be successfully completed. This has resulted in problem activities being avoided. If an activity does not meet this minimum criteria the task team is informed early so that time is not spent on proposals that cannot be taken forward. The quality of proposals is strengthened through this process and both the TF management and the task teams do not spend time and resources on proposals that do not meet the objectives of the TF.

Once proposals are approved care is taken to see that process of putting in grant funds requests (GFRs) which is the Bank's electronic system of setting up child TFs for each activity is done quickly by all TTLs and funds made available within a short period. A customized spread sheet has been created and disbursements and commitments are tracked on a monthly basis. This close monitoring of the TF has enabled prompt action if and when problems are encountered. This was of crucial importance when the 2009 tranche from AusAID did not materialize at short notice. The information that the contribution would not be forthcoming was received only in mid May for a tranche due in early July. A close watch over fund flows and quick action to move funds from slow moving to quick disbursing activities made it possible to close the gap between allocations and funds in hand. It enabled the funding of an additional round which was Round 3 without affecting any of the activities or reducing the impact of the TF.

5. OVERALL IMPACT OF THE TF

5.1 Meeting the objective of the TFs

5.1.1 Enabling Infrastructure Delivery

The TF has the twin objectives of fostering an enabling environment for infrastructure delivery and enabling infrastructure delivery. The TF also seeks better cooperation between the two partners AusAID and the World Bank in improving aid effectiveness in the region. Each activity is screened to meet the target of supporting infrastructure delivery and/or helping to build an environment that supports infrastructure delivery in the region. Through the 69 activities funded so far, SAR IFGI has addressed the



policy constraints on infrastructure delivery. It has enabled better and more informed dialogue on infrastructure related issues in the region. These include looking the regional impact of the Padma Bridge which is the largest infrastructure investment by the World Bank, ADB and the IDB in Bangladesh. ***Annex 3 Detailed Progress Report*** provides details for each for activity. This includes a number of transformative projects including the first high speed Dedicated Freight Corridor of the Indian Railways, the largest rural roads project in the world in India, and the cross border trade in energy between India and Bangladesh and India and Nepal.

The impact of the TF on the Bank's portfolio is significant. The effort has been to use the funds strategically to fund tasks that add value to the Bank's pipeline. It has raised the quality of the Bank's projects and policy dialogue. It has improved project preparation, implementation, supervision including monitoring and evaluation. It has significantly expanded the scope of its activities enabled it to enter in some cases new areas of engagement and brought additional value to its development efforts.

5.1.2 Strengthening the Partnership with AusAID

The year saw a concentrated effort to build a strong partnership with both the Posts and Canberra which extended from senior management to the task teams. After agreement on the themes to be funded, the details of each activity funded is shared with AusAID. Task Teams are also asked to brief the relevant Counselors and Country Managers in person. Several such briefings were organized for the AusAID Country Manager in India Gopal Menon and the First Secretary Development Russell Roallson on the support to the Expert Committee for a National Transport Policy, the Sustainable Urban Transport Program, the Incentive Based Reform for Water and Sanitation in Maharashtra, the Policy Reform Workshops on Water and Sanitation Service Delivery with the Indian states and the study of infrastructure in the Indian Sunderbans. A similar briefing on activities funded in Bangladesh was held for the Country Manager, Rachel Payne and her team on the regional impact of the Padma Bridge, and on improving Power Sector governance. The task team for the study on the Infrastructure Gap in South Asia briefed Brek Batley Director South Asia and Mark Bailey in Dhaka. Besides these briefings Annual Portfolio Reviews were held by the Program Administrator Tara Sharafudheen with Gopal Menon, Rachel Payne, Sally Mackay and Edward Archibald from the India, Bangladesh and Sri Lanka Posts. Similar reviews are to be held with the other Posts in early 2012.

A discussion on urbanization in Bangladesh was held by Songsu Choi, Lead Urban Economist and Tara Sharafudeen with Rachel Payne and Mark Bailey, Regional Counselor in Dhaka. The Sector Managers for Transport Michel Audige, for Energy Jyoti Shukla, and for Urban and Water and Sanitation Ming Zhang which are the sectors that have utilized the funds from IFGI the most meet with Gopal Menon and Russell Roallson in Delhi to brief them on strategic issues in the sector.

Several discussions were held in Canberra by senior management from the Bank's South Asia region in 2010. These include separate visits by the Vice President, and the Sector Directors for the Sustainable Development and Human Development in the South Asia Region. Besides this Tara Sharafudheen also meet with the staff from the Country Desks and the infrastructure and water and sanitation teams in Canberra to brief them on tasks funded by AusAID TFs.

AusAID staff were invited to trainings organized by the Bank in 2010. Brek Batley, Director South Asia and Mark Bailey Regional Counselor participated in the four day Impact Evaluation training in Dhaka in October 2010. The workshop was found to be useful by them.

5.2 Leverage Financial and Non-Financial

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The \$16.87m of funds from AusAID have leveraged or/and added to another \$21.5 billion of infrastructure related investments **Annex 3-Additional Funds Leveraged** gives details. This has been made possible through co-financing from the Bank for the task or through project preparation for lending or TA to which the tasks contributed or for supervision or evaluation of existing projects or as additionality to the work program. The TF has also multiplied its impact several fold through contributions from other donors. These include DfID, ARTF, ESMAP, BNPP, TFESSD, PPIAF, the South-South TF and DevCo.

In evaluating the performance of TFs, the non-financial aspects of leveraging are often overlooked. These are as important as the financial aspects. The TF leverages all the Bank's relationships with clients and other development partners and the ongoing policy dialogue. Within the Bank it leverages the Bank's systems and processes and resources including the expertise and time of its staff.

5.3 Engagement in New Areas

The TF has enabled engagements in several new areas either indirectly or directly. The first study of the cumulative impact of 22 hydro power projects under preparation or implementation on the Alaknanda River a major tributary of the Ganga river in the Indian state of Uttarakhand was completed successfully. It provided a framework to engage with the state and the government of India on the larger issue of sustainable hydro power and water resources management. Based on this the state has requested for Bank's assistance to develop a strategy to manage its natural resources which are mostly hydro based. The government of India also requested TA to support the newly formed National Ganga River Basin Authority. A bank project for \$1 billion is now actively engaged in providing support for reducing pollution and managing the water resources of the river system.

The Kathmandu Urban Competitiveness Assessment is the first study by the Bank to examine the growth potential of the Kathmandu Metro Region. The earmarked funds for Water and Sanitation in the last tranche of IFGI has made it possible for the Bank to reengage in the water sector in Pakistan after a long absence through a sector assessment study that will engage the client and key stakeholders on issues of sector reform. A study is also being undertaken to estimate the coping costs of the lack of improvements in water and sanitation delivery in Kathmandu over the last 10 years. Such costs while intuitively understood have rarely been empirically estimated. These costs can be a valuable tool for policy makers to determine the urgency and cost effectiveness of service delivery. See more details on the task in **Box 1 Estimating the Costs of Inaction**.

5.4 Adding Value

Box1: Estimating the Costs of Inaction

The failure to deliver infrastructure services has adverse impacts especially on poor households. In large and growing populations these costs are significant but have rarely been empirically estimated. This "cost of inaction" is of concern for the Bank's 2003 Water Resources Strategy. The situation in Kathmandu offers an opportunity to gauge the rising coping costs of households in a metropolitan area, in the absence of investments in water supply. Ten years ago many households with piped connections only received water for 1 to 2 hours. Since then there has been little capital investment, while the population has more than doubled, in part due to civil strife and resulting migration. As water supply continued to deteriorate, households sought out more expensive private solutions. A unique opportunity has risen to re-interview 1500 households, first interviewed in April-March 2001, to collect data on the coping costs of unreliable water supply. The team will return to ascertain how the worsening situation from 2001 to 2010 has affected the costs of coping with unreliable supplies and the subsequent impact on the economic well-being of these households. In parallel the coping costs, today, of migrant families that sought refuge from conflict will be ascertained. Their costs may be different due to lower levels of access, to piped supplies, alternative sources of water, and to financing for improved facilities. Together the surveys will provide a comprehensive assessment of coping costs over the last decade. This will be compared to planned investments that would have improved service to at least some of the sampled households to bring home the costs of inaction.

SAR IFGI has added value to the Bank's portfolio by raising the quality of the preparation, implementation and supervision of projects. It has also made it possible for the Bank to provide timely TA to support reform and has enabled better and more informed policy dialogue with clients.

The Karnataka Highway Improvement Project will be the first project to use a Bank loan of \$350 million to support PPP concessions in the highway sector. It will finance GOK's capital contribution for four BOT-Annuity Concessions, and will provide finance with private domestic banks. The BOT-Annuity Concessions would be the first PPP transaction where the Bank loan will be used to procure and pay the concessionaire. The TF is funding the consultancy to develop a PPP Annuity Concessions Model of international standards. It will also assess the potential of supporting the development of the Core Road Network with proceeds from bonds secured by the state Road Fund revenues and to securitize the Road Fund revenues for bonds to support selected capital improvements and thus leverage private funds. The road fund revenues would also be used to support government obligations for the PPP transaction, such as annuity payment for above annuity concessions.

5.5 Increasing the Scope of Activities

Through this partnership with AusAID it has been possible to expand the breadth and depth of Bank's engagement in infrastructure in the region. An example of the increase in scope that has been possible by strategically leveraging the TF is the work that looks at the development of the South West region of Bangladesh upon construction of the Padma Bridge. By allowing the opportunity to gauge the development impact of this major infrastructure on the South west region of the country and also upon trade with its neighbors it has added a new dimension to the bridge project. The NLTA looking at infrastructure development in the ecologically sensitive Sunderbans area in India has enabled dialogue on the Bangladesh side of the Sunderbans and the engagement has been broadened to include the whole of the Sunderbans. The TF also made it possible to extend technical assistance to the Expert Committee for a National Transport Policy in India. With the support of the TF, the Bangladesh Rural Water Supply and Sanitation Project will work for the first time to build active linkages between private operators communities and local governments. One of the lessons learnt from Bank's involvement in the rural W&S sector is that for greater sustainability and ownership of the assets and for better service it is important to involve the local governments who should own the assets, along with the community.

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Box 2: Adding Value to Implementation

The Prime Minister's rural roads program (PMGSY) is a national program of \$40 billion to provide all weather rural access roads to all habitations in India with a population of over 500. Bank assessment of the core IDA indicator on rural accessibility found that about a third of world population without access to all weather rural roads lives in India. The Bank's PMGSY project takes a programmatic approach to support implementation of the program over five year in seven states - Jharkhand, Himachal Pradesh, Rajasthan, Meghalaya, Uttarakhand, Uttar Pradesh and Punjab. The \$ 1.5 billion loan will help connect 8,200 habitations with 24,000 km of roads. A result based approach links disbursements to the extent of connectivity achieved, effective public expenditures and the extent of the network under routine and periodic maintenance. Given the size and geographical area, a system wide implementation support strategy has been adopted. The Bank will rely on governance arrangements under PMGSY to ensure satisfactory implementation. IFGI is providing support to raise the quality of the governance mechanisms to mitigate risks associated with corruption, poor quality and insufficient maintenance. These includes support to develop an Online Monitoring Management and Accounting System , operationalize the three tier quality control system, enhance key program guidance documents; and roll out social accountability mechanisms including third party citizens monitoring and a complaints handling mechanism . It will also develop and put in place world class M&E of outcomes.



5.6 Support for Transformative Projects

The TF is supporting several high value transformative projects of the Bank. These projects are important not just due to the large financial outlays involved but due to their complexity and geographical scope as significant national programs. The Bank's engagement is substantive and the negative outcomes from failure will be substantial. The support provided from the TF includes examining PPP options for the first high speed Dedicated Freight Corridor (DFC) of the Indian Railways. The DFC is being set up under a separate corporation which will operate under a memorandum of understanding with the Indian Railways. It will improve the level of service offered to customers; reduce greenhouse gas emissions through fuel savings achieved by modal shifts of freight from trucks to the DFC, and rail transport efficiencies of the DFC itself. The Bank's Dedicated Freight Corridor Project with a loan of \$ 975m supports the DFC in meeting the growing freight and passenger demand in the railway corridor between Khurja and Mughal Sarai⁴ the busiest section of the DFC

IFGI is also raising the quality of the implementation of the \$40 billion Prime Minister's Rural Roads Project (PMGSY) one of the largest public sector rural roads projects in the world see **Box 2: Adding Value to Implementation**. The Bank's lending for the project is \$ 1.5billion. Other projects in the preparation stage being supported include the ambitious Central Asian and South Asian cross border trade in energy or CASA-1000 which plans to bring electricity from the Kyrgyz Republic and Tajikistan to Pakistan via Afghanistan. See **Box 3: Going Beyond Borders**. The Urban Water and Sanitation Services Modernization Project (UWSSMP) aims to help Indian cities achieve 24*7 service delivery for the first time. A number of the background analyses to support this task is being undertaken. Overall the TF is also enabling the Bank to develop a supervision strategy for these signature projects to improve their success and to maximize the use of resources.

Box 3: Going Beyond Borders

The CASA 1000 project under the Central Asia - South Asia Regional Electricity Market (ICASAREM), is an ambitious vision for developing electricity trade among the countries of the two regions. Under this concept the Central Asia countries the Kyrgyz Republic and Tajikistan will supply electricity to Afghanistan and Pakistan. The first phase is to establish the transmission and trading infrastructure and systems to enable a trade of about 1300 MW of electricity between Central Asia and South Asia, referred to as "CASA-1000". The TF is contributing to the preparation of the project with transaction advisory services for legal advice for the South Asian countries and for benefit sharing with local communities which is a sensitive issue for natural resource projects.

6. KEY RESULTS

The TF is now in its third year of operations. Tasks in Round 1 and 2 have been completed or are nearing completion. Several key results have already been obtained. Significant among these outcomes is the TA for the successful privatization of the airport in Maldives. The piloting of sustainable and environmental transport policies under the ongoing Sustainable Urban Transport Project has led to the design and award of the Bus Rapid Transit System (BRTS) in the twin cities of Pimpri Chinchwad and in Naya Raipur and Intelligent Transport Systems (ITS) in two other cities in India. Citizen's score cards for Non Motorized Transport (NMT) were developed and implemented in Pune. It has also enabled peer to peer learning through workshops and a dedicated website which has proved to be popular with the transport staff of these cities.

⁴ A section of the DFC's Eastern Corridor



One of the key pillars of the Bank strategy in the energy sector is to support reform and improvements in the performance of the state owned transmission and distribution companies. The TF funded three such organizational transformation efforts. This includes the organizational reform of the Haryana Power Sector in the state of Haryana in India and the development of key performance indicators and benchmarking of the power sector in Bangladesh. See **Box 4 Transforming Sector Governance** for more details on the work done in Haryana which was also commended by the Country Manager, India of AusAID. The organizational transformation work for the power distribution company in Maharashtra included process re-engineering, increased competition in the transmission sector and the difficult issue of Human Resources reform. The study and recommendations were accepted by the state government. The team also won an award from the Bank in 2010 for their work.

The Urban Water Sector Policy Reform workshops enabled the development of an advisory note on Business Plans for the Ministry of Urban Development which is to go out as an advisory to all the Indian states. The state of Maharashtra announced a new state wide water and sanitation scheme the Maharashtra Sujal Nirmal Abhayan (MSNA) the first in India that provides incentives to urban local governments to improve the institutional environment for WSS by improving accountability, financial sustainability and customer orientation. This was an outcome of the policy reform workshops and was further supported by the TF supported TA for Incentive Based Reform of Urban Water and Sanitation Services in Maharashtra which helped to design the implementation of the program. See **Annex 4 Detailed Progress Report** funded for more details.

The TA for Emerging Towns in Nepal looked at growth issues of secondary towns in Nepal that are growing rapidly. Nepal is in a

Box 4: Transforming Sector Governance

The TF supported the institutional agenda of the \$ 330m Haryana Power System Improvement (HPSI) Project aimed at improving the availability, efficiency and accountability of electricity supply in the state of Haryana, India, through strengthening the transmission and distribution systems. It helped build the management systems and institutional capacity needed for internal transformation through process improvements, use of technology, and organizational changes and benchmarking. This work was well received by the client and commended by the Country Manager India, AusAID via a cable to Canberra. Besides this the TF funded two activities that are impacting sector governance. A major issue leading to anomalies in fiscal subsidy computation is estimating unmetered agricultural consumption. The estimates of agricultural consumption by Discoms and Regulatory Commissions vary by over 30%, leading to variations in the estimation of subsidy and losses. The state in a politically bold step segregated the agricultural feeders from other rural residential feeders with an investment of \$ 100 million. The TF supported this program by creating an M & E framework to measure consumption and data related to segregated feeders, establishing an MIS and guidelines and methodology for reporting actual agricultural consumption to the regulator. The Bank is helping India shape a national action plan on rural feeder segregation and the M & E framework was used as input into this. Haryana had been a pioneer in setting up an independent regulatory commission and initiating first generation reforms such as tariff filings based on cost of service. It was lagging behind on second generation reforms related to multi-year tariffs, market design and open access. The capacity the regulator was augmented for setting multi-year tariffs and benchmarking techniques to set adequate performance and efficiency incentives; market design (intra-state availability based tariff) and safeguarding interests of the consumer. The regulations developed are now close to notification.



transition to a federal structure and the Government was keen to formulate a policy for development of its emerging secondary towns in the context of economic development and rapid urbanization. The task supported the preparation of Bank's Nepal Emerging Towns Project which is now under implementation. The task funded by the TF helped to devise a transparent strategy for the selection of the six emerging towns for the project. This was a critical exercise since with the end of conflict and the transition to a parliamentary democracy the aspirations of various regions after years of perceived neglect were being openly expressed. The study helped to select the cities from the east-west and north-south growth corridors and extensive profiles were prepared. A consultative process was followed which helped to lay the foundation for a national dialogue on secondary cities in Nepal.

The support to Management of Land Acquisition and Rehabilitation and Resettlement (MLARR) in Bangladesh resulted in a national policy dialogue and a successful MLARR course at BRAC University. The course is part of the Masters in Development Studies that has now been recognized by the University Grants Commission. The first course was inaugurated by the Australian High Commissioner in 2009. It has been delivered successfully for the third time in 2011. The MLARR initiative started with AusAID funds is continuing with a second round of funding from DFID. In October 2011, an international conference was held in Dhaka with experts, from India, China, Colombia, Uganda and Afghanistan to evaluate the MLARR course. It was accepted as a basis to initiate similar courses in Uganda and Afghanistan. The team will travel to Uganda in April 2012 to help Martyr's University design the course and run a TOT session for instructors. Hohai University, China is offering two scholarships for students interested in attaining a Masters or Ph. D. in Resettlement and Rehabilitation. The initiative is also being scaled up through a regional initiative to develop centers of excellence in Nepal, Afghanistan and Pakistan funded in Round 4.

Several tasks related to regional integration and connectivity were also brought to fruition. The cross border energy work funded by the TF provided advisory support to structure two regional deals. The first the India-Nepal power trade is being supported by the \$202.5 million Nepal-India Electricity Transmission and Trade Project. The deal provides Nepal with at least 100 Megawatts (MW) of additional electricity from India and will help to minimize power blackouts. It will also develop cross-border transmission capacity of about 1,000 MW and develop key segments of the backbone high voltage system to help expand access to electricity across Nepal. The Bangladesh- India deal was set up by the Bank and is now being funded by ADB.

The Sundarbans in West Bengal state comprise of 102 islands, 48 of which are under conservation status. The remaining 54 islands are home to about 4 million people, facing limited development opportunities. Data suggests that Sundarbans is far from achieving the Millennium Development Goals (MDGs). A major constraint to economic growth and poverty reduction is lack of infrastructure. The study funded developed an island typology to focus analytical work and investments on islands where economic activities are viable as they would not be submerged with the anticipated rise in sea levels. It also examined viable options for infrastructure in the W&S, energy, transport and tourism sectors. This fed into a large study of climate change adaption and sustainable infrastructure in the region. The study has been well received by the government of India and the state government. This led to a request from the Government of Bangladesh to address similar issues in their part of this ecologically sensitive area which is home to the Royal Bengal Tiger and at risk from the effects of global warming.

Among the key analytical pieces produced is the study of the infrastructure gap in the region quoted in the introduction. The second phase of this study to examine possible options for closing this gap is underway. The Trust Fund has one more year before it closes. Several key interventions supported are yet to be completed and the overall impact of the TF will be assessed in the final annual report on the TF.

