

Executive Summary

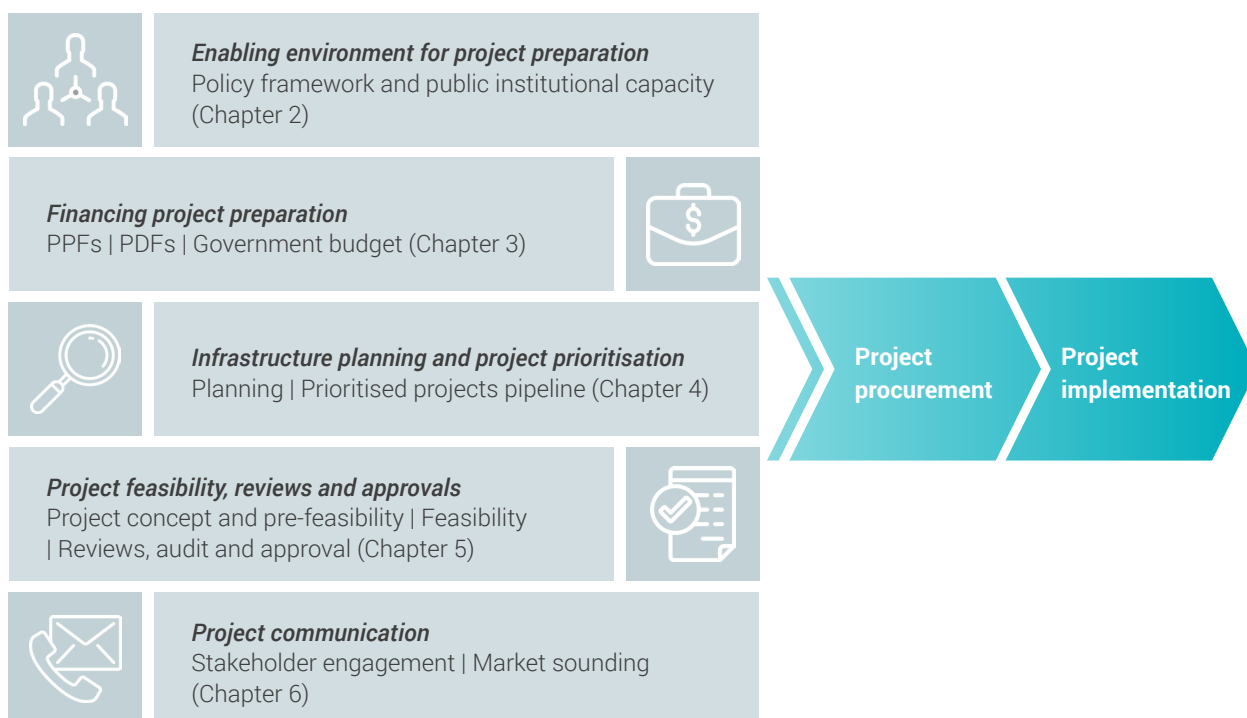
Background

Tackling the large global infrastructure gap remains a priority for governments to drive inclusive growth and reduce poverty. The *Global Infrastructure Outlook* report prepared by the Global Infrastructure Hub (GI Hub) estimates that the global infrastructure investment needed between 2015 and 2040 is approximately US \$94 trillion. Past studies peg project preparation costs at between 5-12% of investment needs, and even if the lower end of this range is considered, financing needs for project preparation translate to US \$4.7 trillion over this period, or US \$188 billion annually.

In 2018, the G20's Infrastructure Working Group (IWG) identified the key elements for infrastructure growth under a strategic roadmap, "*Developing infrastructure as an asset class*", organised under three overarching pillars, the first of which is improving project development. In July 2018, the G20 Finance Ministers and Central Bank Governors endorsed the G20 Principles for the Infrastructure Project Preparation Phase developed by the IWG.

The Global Infrastructure Hub (GI Hub) has led the development of this *Reference Tool on Governmental Processes Facilitating Infrastructure Project Preparation* (hereinafter referred to as the 'reference tool') to support the operationalisation of the aforementioned G20 Principles.

This reference tool is intended as a guidance document for governments and practitioners involved in infrastructure project preparation, and is built on a detailed country-lens review of project preparation practices in 15 countries. The reference tool seeks to address challenges faced by governments in early-stage project preparation through providing guidance in five areas, as shown in the following diagram:



Outline of guidance areas

Enabling environment for project preparation

A conducive enabling environment for infrastructure investment is often a key differentiator between countries that successfully scale up infrastructure and those that face challenges in doing so, and nurturing such an environment is largely the responsibility of governments. The reference tool identifies leading practices in two dimensions of government action:

- 1. A robust policy framework:** that signals clarity, consistency and stability of government actions, while providing for agility to adapt and manage changes in the wider infrastructure ecosystem. In developing such a framework, governments should:
 - Establish a stable policy and legislative framework guiding development and private participation in infrastructure that is agile and responsive to tackle evolving infrastructure development needs;
 - Develop guidelines, standards and processes to make the policy framework actionable, together with an aligned cascading of policies at the sub-national government and government contracting authority (GCA) level; and
 - Formulate allied sector-specific policies as necessary to drive infrastructure project preparation.
- 2. Well-governed public institutions:** with a clear role, mandate, and commensurate capacity to operationalise policy into effective and smooth project preparation and implementation. Key 'leading practices' include the following:
 - Establish and empower centralised agencies to institutionalise project preparation capacity and standards;
 - Create sector-specific agencies where investment and/or transformation needs are significantly large;
 - Develop commensurate capacity and mechanisms to address conflicts of interest;
 - Create distinct structures for preparing large complex projects; and
 - Build complementary capacity to equip GCAs with skills and capabilities to manage project preparation.

Financing project preparation

As noted, infrastructure project preparation costs in developing countries typically range from 5-10% of the total project investment, and about 3-5% of project costs in developed countries. While financing for project preparation has, in the past, been largely addressed through government budgetary allocations, increasing use is now being made of national and sub-national Project Development Funds (PDFs), and of Project Preparation Facilities (PPFs) developed by the MDBs and other multilateral entities. Key considerations for governments in utilising each of these three financing sources are summarised below:

- 1. Project Development Funds (PDFs):** Many governments have set up PDFs as a means to provide dedicated financing and bridge capacity gaps faced by GCAs in project preparation. PDFs can be set up at the national and sub-national level, either with government funding or structured so as to recover costs. They may have a thematic focus (e.g. climate mitigation) or a sectoral focus. Critical considerations in the creation of PDFs are summarised below:
 - Ensure clarity of PDF objectives, scope of operation, and interface with GCAs;
 - Support PDFs with effective governance, institutional capacity and sustainable financing;
 - Institutionalise project preparation financing support for sub-national governments; and
 - Develop allied mechanisms, standards and processes for effective operationalisation.
- 2. Project Preparation Facilities (PPFs):** PPFs are a response by the MDBs and other multilateral entities to address the scarcity of bankable, investment-ready project pipelines in many Emerging Market and Developing Economies (EMDEs), and to provide financing support for project preparation. Many of these PPFs have been set up with different arrangements and regional focuses. Apart from financing project preparation activities, PPFs provide technical assistance and capacity building support. To effectively utilise PPFs, the following considerations are crucial:
 - Alignment of government objectives with relevant PPF aims;
 - Seek support from PPFs for the upstream enabling environment and improving public investment efficiency; and

- View PPF support as a ‘stepping stone’ to build and accelerate local capacity creation, and not just as a financing mechanism.
- 3. Government budgets:** Notwithstanding the growth of PDFs and PPFs, a dominant portion of project preparation is financed by public spending from budgetary allocations of GCAs. Even in Africa, where many PPFs are active, 70-80% of project preparation funding comes from government budgets. Given the scale of budgetary spending on project preparation, governments should pay close attention to improving the efficacy and impact of these expenditures. The following actions should be considered:
- Direct a portion of budgets to project preparation while tracking expenditure and outcomes continually;
 - Implement GCA-level reporting and disclosure on project preparation spending; and
 - Set and enforce guidelines with which GCAs must comply to secure budgetary funding.

Infrastructure planning and project prioritisation

Well-planned and prioritised infrastructure investment improves productivity, engenders competitiveness and contributes to long-term sustainable economic growth. Effective project preparation starts with putting in place upstream mechanisms to formulate long-term infrastructure plans, and translating those plans into prioritised project pipelines.

- 1. Formulate medium- and long-term infrastructure plans:** This involves a systematic assessment of critical infrastructure gaps, identification of priorities to drive socioeconomic transformation, setting actionable goals around these priorities, and identifying projects to realise the agreed-upon goals. The formulation of medium- and long-term plans to drive greater focus and commitment to infrastructure development priorities calls for the following set of actions from governments:
- Prepare long-term infrastructure plans that translate a systematic baseline assessment into a committed articulation of priorities, goals and pipeline of projects;
 - Anchor accountability for infrastructure planning within capable and empowered public institutions;
 - Cascade infrastructure planning down to the level of GCAs and sub-national governments;

- Update infrastructure plans periodically to reflect lessons learned and build credibility in planning; and
 - Create linkages of the plan with downstream actions, to operationalise the plans.
- 2. Translate these plans into a prioritised and actionable projects pipeline:** Once long-term plans are in place, they should be translated into a credible and prioritised pipeline of programs and projects:
- Encourage GCAs to prepare master plans, which can serve as useful starting points to build a project pipeline database;
 - Create mechanisms to track and monitor projects of national and strategic importance; and
 - Move to evidence-based analysis to prioritise projects, including through the use of tools such as the World Bank’s Infrastructure Prioritization Framework.

Project feasibility, reviews and approvals

Translating a concept into a bankable project requires rigorous evaluation and appraisal of the project’s feasibility, and often requires a multi-stage evaluation, starting with a strategic case or concept definition, and moving through to pre-feasibility assessment and detailed feasibility evaluation. A structured approach to project feasibility evaluation typically involves three steps:

- 1. Early-stage pipeline screening and pre-feasibility assessment:** Key actions required by central government agencies and GCAs at this stage include the following:
- Strengthen planning processes and capacity of GCAs to translate development priorities into well-scoped project concepts;
 - Implement structured processes and guidelines for early stage screening, project identification and scoping; and
 - Create institutional support for independent unbiased pre-feasibility studies and early stage project evaluation.

2. Rigour in feasibility evaluation: This step involves a detailed evaluation of the project's feasibility and seeks to comprehensively facilitate decisions regarding the investment and financing of projects. The following elements should be considered:

- Governments should develop harmonised standards and guidelines for quality feasibility evaluations and build capacity in GCAs to perform them, using external consultants as appropriate.
- While evaluating project feasibility, tools such as the World Bank's PPP Project Screening Tool can help in building comprehensiveness of evaluation and suitability for implementation using the PPP model of procurement.
- Governments need to strike the right balance between qualitative and quantitative approaches in determining which model of procurement to use, especially in the early stages where there is limited data to inform assumptions, even though they ultimately seek to integrate comprehensive Value for Money analyses into overall public investment planning.

3. Periodic review and approvals: Mechanisms to consistently build robust project reviews and appraisals in a multi-stage manner can help to avoid missing key requirements early on and getting blindsided by challenges later in the project preparation process. The following elements should be built into project reviews.

- Implementing well-defined and time-bound work flows to balance rigour and efficiency considerations;
- Embedding a process audit into project preparation to build transparency, accountability and efficiency; and
- Ensuring that key stakeholders are involved during project preparation and reviews.

Project communication

Stakeholder engagement during infrastructure project preparation assumes tremendous significance given the multi-faceted nature of large infrastructure projects and the complex stakeholder interfaces they tend to cut across. Communication during the course of infrastructure project preparation should be viewed as a strategic action that takes into account the importance and disposition of all key stakeholder groups towards the project; tailors timely and

appropriate communication actions to inform and engage them; and fosters a supportive environment through the course of project preparation and implementation. Governments should:

1. Formulate and deliver a stakeholder engagement action plan to:

- Map stakeholders and their preferences, and assess the intensity of communication efforts required;
- Assess stakeholders' behaviour, influence and importance while identifying their needs, expectations and concerns; and
- Develop and deliver an appropriate communication plan to address the various stakeholder groups.

2. For potential PPP projects, evaluate market interest early in the project preparation phase

through the market sounding of projects to potential developers and investors. To prepare for market soundings, the GCA should:

- Identify and engage as wide a set of potential bidders as possible; and
- Identify positive aspects of the project that position it as an attractive investment opportunity, and position the GCA as a credible partner in the PPP transaction.

Concluding remarks

The reference tool synthesises lessons and practices from global, national, and sub-national level experiences to support governments in making project preparation processes more effective. The reference tool has been finalised with inputs and contributions from government officials in over 15 countries, multilateral agencies, and private organisations, who have helped to inform its final development.

The reference tool blends conceptual inputs with country case examples and best practices, distilled from the country-lens reviews undertaken during the preparation of this tool, and also includes a referencing of other tools and frameworks used in project preparation.

The reference tool is designed to complement the *G20 IWG Principles for the Infrastructure Project Preparation Phase* and the *MDB Guidance Note on Project Preparation Facilities (PPF): Structure and Operations*.