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Introduction

In November, 2013, at the request of donors, the PPIAF Program Management Unit (PMU) prepared a comprehensive Strategy document which was presented at the Special Program Council in Dublin. At the Special Program Council, donors agreed that PPIAF should use the Strategy to prepare a Business Plan to support, and state the case for funding the implementation of the Strategy.

This document sets out the Strategy in a more concise format than the version presented at the Special Program Council and supports the Business Plan which was discussed at the Program Council in June 2014. This Strategy document and the Business Plan, together with other supporting documentation, are designed to provide the information required by donors to endorse the Strategy and approve the Business Plan.
1.1 THE BENEFITS OF EFFECTIVE INFRASTRUCTURE

Economists and policymakers, supported by academic research, have devoted considerable effort to theoretical and empirical analyses of the contribution of infrastructure development to growth and productivity. They view an adequate supply of infrastructure services as critical for economic development. Sustainable, efficient, reliable and affordable infrastructure services enable economic growth and, in the right circumstances, can accelerate the eradication of poverty and support the creation of jobs at the regional, national and subnational levels.

Beyond contributing to economic growth and job creation, effective infrastructure can serve as an agent of change in addressing some of today’s greatest development challenges like climate change and gender inequality. Climate change has both direct and indirect impact on built environment and new infrastructure systems. Adapting to climate change requires more resilient infrastructure and mitigating its effects calls for less environmentally damaging infrastructure. Inadequate infrastructure plays a major role in the overburdening of women in developing countries. For example, in poor urban settings, long commutes resulting from poor transport infrastructure can greatly limit women’s ability to participate in the workforce.

Infrastructure investment is important not only at the country level but at the sub-national and regional levels as well. Investment at the sub-national level can help combat the challenges of decentralization and urbanization. However, sub-national entities rarely have the capacity to fulfill the role of financing essential infrastructure due to weak policy frameworks, inadequate institutional capacity, evolving regulatory environments and thin, and illiquid, local capital markets. In addition, their traditional sources of financing, which consist of sovereign funding and guarantees, are inadequate to meet the increasing service delivery responsibilities. Furthermore, in the next 20 years nearly two billion new urban residents are expected to put a major strain on existing urban infrastructure. As a result, the need for transport, water and sanitation, waste disposal, and electricity in rapidly expanding urban areas will grow significantly.

Regional infrastructure investments provide benefits that reach all types of infrastructure networks. For power and information and communication technology (ICT), regional infrastructure investment provides economies of scale that significantly reduce production costs. For transport and water, regional collaboration promotes optimal management of resources and the development of cross-border public goods. Linking several countries via a transport network, for example, can mean that a landlocked country can gain access to key ports and harbors, allowing the country to produce goods for export and participate in larger trade networks. Regional infrastructure investment is paramount for small developing economies that find shouldering infrastructure costs on their own difficult.

1 see for example Sánchez-Robles 1998; Canning 1999; Demetriades and Mamuneas 2000; Röller and Waverman 2001; Esfahani and Ramirez 2003; Calderón and Servén 2004b, 2010). More recently, increasing attention has been paid also to the impact of infrastructure on poverty and inequality (Estache, Foster and Wodon 2002, Calderón and Chong 2004).

2 A 2013 World Bank report on infrastructure and employment creation in the Middle East and North Africa (MENA) found that infrastructure investment increases growth by one percentage point will help the region create nine million additional jobs in the course of ten years.

1.2 THE INFRASTRUCTURE INVESTMENT GAP

Even though the need for and associated benefits of infrastructure are clear, investment has not kept pace. Today, the infrastructure gap in low and middle-income countries is estimated at $1 trillion per annum.\(^4\) Without radically shifting budget priorities, raising tariffs and increasing tax revenues, country governments cannot close this gap on their own. For this reason, the role of private investment in infrastructure grows increasingly critical.\(^5\)

The global investment industry continues to hold assets worth over $100 trillion in the form of pension funds, mutual funds, exchange-traded funds, insurance funds, private equity funds, hedge funds and sovereign wealth funds. And, whilst private participation in infrastructure reached an all-time high of $160 billion in fiscal 2010 (compared to $100 billion in fiscal 2005), it remains highly volatile to financial crises and is concentrated in a few sectors and countries. Middle-income countries that experienced the fastest economic growth in recent years have been the most capable of attracting private capital and other sources of financing, whereas lower-income countries with the greatest investment needs have the greatest difficulty attracting private sector investment.\(^6\)

While infrastructure investment demands are great and many potential sources of capital for investment exist, the current perceived risk and consequent return expectations result in a relatively small flow of capital compared to the needs. The payback period for many critical infrastructure projects are longer than other investments and can last well beyond the horizon of a particular government regime. This undermines investment appetite and creates the risk that the terms of a project may change when a new administration comes to power. To mitigate this risk, potential investors require consistency and predictability of the policy, regulatory and institutional framework. Credit enhancement and risk reduction through institution building can create a framework to increase the capital effectively intermediating between the supply of capital and demand.\(^7\)

1.3 BUILDING INSTITUTIONS FOR INFRASTRUCTURE DEVELOPMENT AND POVERTY ERADICATION

Effective institutions, which include good governance, strong rule of law, appropriate enforcement of contracts, protection of property rights, are arguably the main reason why some countries are rich and others poor. In terms of infrastructure investment, effective institutions lead to more investment.\(^8\)

Infrastructure investments characterized by large sunk costs, low mobility of assets and site specificity face the risk of opportunistic behavior by host governments post investment. For this reason, investors will scrutinize the effectiveness of the legal and regulatory institutions that govern contracts, contract enforcement, property rights protection, human capital and the rule of law. Investors want credible and

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\(^7\) Credit enhancement: improving the credit profile of a project by reducing risks; risk reduction through institution building is the process of reducing risks to infrastructure projects by establishing and strengthening public sector institutions involved in the preparation or oversight of projects (e.g., a sector regulator).

enforceable “rules of the game.” Members of the investment community cite the need for more institutional stability to spur investment, and members of the academic community have shown empirically that stable rule of law and high quality bureaucracies attract more private investment in infrastructure. Additionally, transparency and building institutional capacity are critical factors to preventing corruption in infrastructure projects and ensuring the benefits of the project are available to the entire population.

1.4 THE LANDSCAPE – WHO IS DOING WHAT

The development community (i.e. IFIs, DFIs, NGOs) has long recognized the role that infrastructure can play as a key driver of economic growth and a contributor to poverty eradication. Moreover, faced with ever growing infrastructure needs in developing countries and a finite supply of capital, the development community is gradually reorienting its investments beyond traditional public finance in a way that will also attract or leverage private sector investment.

Yet an analysis of this donor community reveals that many donor facilities working on this agenda are single-sector, single-issue or single-region focused. Few facilities take a multi-sector and multi-regional approach. Many facilities focus funding on project preparation activities (such as technical feasibility studies and transaction advice), very few on creating the institutional landscape necessary to attract private investment. Furthermore, a number of facilities are linked to involvement of specific private sector sponsors. Few are focused on reaching the ultimate aim of building the institutions of governments to be able to competitively procure infrastructure projects.

In this technical assistance landscape, PPIAF is uniquely positioned as the only genuinely global, multi-sector entity focused on preparing and improving the institutional environment so that developing country governments can attract much needed private sector capital into their infrastructure. This was a view shared by the Infrastructure Consortium for Africa’s report on project preparation facilities. It is the desire to further bolster and enhance this unique positioning and capability that defines much of this strategy.

“To be the center of excellence in enabling the public sector in developing countries to reduce poverty by attracting private sector participation and investment in infrastructure by supporting institution development, building capacity and accelerating PPP programs at a regional, national and sub-national level.”

PPIAF’s mission and vision align with the World Bank’s twin goals to eradicate poverty and increase shared prosperity and is consistent with our donors’ development objectives by reducing aid dependency, stimulating sustainable growth and creating jobs. The implementation of this strategy will be guided by these goals and a continued focus on assisting developing countries to develop infrastructure projects that reduce poverty and increase standards of living for their citizens. This strategy and the accompanying business plan will also be implemented in alignment with the conclusions and recommendations of the Independent Evaluation Group’s evaluation of World Bank Group support to PPPs.12

2.1 HOW PPIAF WORKS WITH STAKEHOLDERS TO DELIVER ITS VISION

PPIAF was created to address blockages in private sector participation in infrastructure as a result of institutional weaknesses and lack of capacity. In the 12 years since its creation, few organizations have provided a similar capability as evidenced by the Infrastructure for Africa Consortium commissioned report.13 Our analysis and experience show that this capability – an understanding of the institutional capacity required to enable private sector participation and an ability to deliver support to strengthen institutions and improve creditworthiness – is in increasing demand. If deployed in the right way, it has the potential to make a significant impact in those places that need it most.

Our vision focuses on our clients and responding to their needs. On each engagement, our primary client relationship is with the organizations we are helping to create institutions, develop capacity and increase creditworthiness. They include national governments, PPP units, regulators and sub-national entities including municipalities and utilities. Ultimately, the citizens, especially the poor, will benefit from stable institutions and private investment in infrastructure.

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12 Please see the IEG report “World Bank Group Support to Public-Private Partnership: Lessons from Experience in Client Countries, FY02-12” for a full list of recommendations.

In order to effectively and credibly serve our clients’ needs, PPIAF will bring the following knowledge insights and competencies:

- Experience of PPPs and private sector investment in infrastructure;
- Knowledge and experience of the primary sectors in which PPIAF operates – water and sanitation, transport and energy;
- Understanding of best practices and capabilities relating to the institutions required to attract private sector investment;
- Experience and knowledge relating to financial instruments and markets and how they apply to and in the environments in which PPIAF is operating;
- Ability to convene other development partners (e.g., the World Bank Group, RDBs, and bilateral development agencies) around programs that will promote private sector investment in infrastructure.

We recognize that we operate in a complex stakeholder environment with many actors involved in related activities, often with diverging objectives, and we need to be a strong organization to manage the key relationships. As a World Bank Trust Fund, we will continue to leverage the strengths of the World Bank – including its coverage, depth of expertise and convening power – for the benefits of our clients. We also have many other partners, who complement the World Bank’s coverage, relationships and expertise, with whom we work closely to deliver aligned objectives. These partners include our donors, other development agencies and RDBs, funds and the private sector. Facilitating collaboration between its partners in the infrastructure space is one of PPIAF’s key value-added roles and a central part of its strategy.

**Who Our Donors Are And What They Say**

| ADB, AFD, AUSAID, Austria, BMZ, DFID, IFC, Japan, MCC, Dutch MFA, NORAD, SECO, SIDA, USAID |

**Donor priorities**

- Maximizing impact as a center of excellence with knowledge based capability combining flexibility & focus.
- Addressing the gap in the infrastructure investment cycle.
- Working in partnership with others with a programmatic approach.

**Focusing on:**

- Geography – Low-income countries and fragile states, with the majority of activity in Africa and learning from our work in middle-income countries
- Core sectors – water and sanitation, energy and transport, telecommunications
- Themes – PPP Institution Building, Creditworthiness, Energy Efficiency and Climate Change, Regional Integration and Access to Infrastructure Finance

Without our donors’ support, know-how and funding, we could not deliver the impact expected of us. By working in partnership with our donors and other development organizations we will ensure that we align objectives, address critical gaps in capability and make ourselves accessible.

In our strategy, we describe a programmatic approach and the principles which will enable us to deliver our client and donor objectives. Our commitment to our clients and our donors is that we maximize our impact through our work with others.
3.1 INTRODUCTION

For many years, PPIAF has fulfilled a unique and pioneering role in creating the enabling environment for private sector investment in infrastructure in many developing countries.

Our strategy, underpinned by our theory of change, programmatic approach, partnerships, and results-based approach as well as our knowledge management and dissemination will enable us to achieve our vision.

Key Trade Offs

Coverage versus focus

PPIAF has to reconcile two competing demands as a multi-donor trust fund:

1. To create knowledge and identify areas where it can have most impact, PPIAF needs to cover a lot of countries, sectors and activities which can be funded with relatively small amounts of funding.
2. To maximize impact, PPIAF needs to focus on a small number of activities which may take a significant amount of time to realize their objectives.

To be effective, there should be the potential for the coverage projects to become part of a focused program but, clearly, most coverage projects will provide "one-off" activity which should deliver material insight and knowledge and be additive (as opposed to substitutional) to other funding.

problem, draws on knowledge about impact chains, describes the change in circumstances that would enable an organization/actor to overcome the identified problem (also referred to as the mission or goal), and outlines the interventions necessary to achieve the solution. PPIAF’s strategy to deliver our mission and vision is informed by our understanding of the conditions required to accelerate infrastructure investment. Our theory of change identifies a series of conditions, spanning three main development streams (categories of intervention), needed in order for our goal to be realized:

- **Institution building stream (core interventions):** Building institutions’ capacity and increasing national governments’ and sub-national authorities’ creditworthiness, political buy-in and ownership by strengthening the financial, political, legal, and regulatory frameworks, managing associated risks, and enhancing transparency and accountability is PPIAF’s core offering and is our unique and distinct capability;
- **Project and transaction stream (periphery interventions):** Development of project pipelines, bankable projects and transactions involves working with and handing off follow-on activities to our development partners who are better positioned to complete the majority of this work (which is generally transaction execution related). PPIAF only funds project related activities which upstream in the typical project cycle such as project identification and appraisal – we will not typically provide support beyond the point where a government has made a clear investment decision to move the project to procurement to enter into full project preparation (e.g. full feasibility stage). It is at this investment decision point where we attempt to hand-off to partners who we will have already introduced to the government. This is the key facilitation and convening role of PPIAF which we referred to earlier. We also offer support to strengthen institutional capacity post-transaction where required;
- **Market development stream (periphery interventions):** Enabling access to international and/or local financial and capital markets which involve working with our development partners where they are best positioned to lead these efforts. These interventions are focused on the demand for infrastructure finance (i.e. supporting government’s to develop financing mechanisms – e.g. viability gap mechanisms) but not on the supply side (e.g. development of capital market instruments) – these will typically be led by other development partners.
As illustrated in the theory of change on figure 1, we will need to work with partners simultaneously across the entire spectrum of interventions to achieve our mission and bring about the anticipated change. Furthermore, because of the multi-stakeholder and complex nature of the ultimate goal, PPIAF’s ability to claim attribution for observed results increases as we get closer to conditions within the outcome and secondary outcomes level, and decreases as we approach changes at the sub-goal and goal levels.

The measureable objectives, performance indicators, list of technical assistance activities and set of criteria to evaluate PPIAF’s pro-poor focus and gender mainstreaming where appropriate will be incorporated into a results framework (or logframe) and monitoring and evaluations plan to be developed and presented to donors in advance of implementing the strategy.

Figure 1: Theory of Change: Understanding The Infrastructure Gap Problem

PROBLEM
The existing deficit in necessary, adequate, quality, sustainable and inclusive infrastructure services constrains economic growth and poverty eradication efforts in developing countries.

GOAL
National and sub-national governments in developing countries have the capability to reduce poverty levels in their territories by increasing private sector investment in the development, maintenance, expansion, operation and delivery of quality, sustainable and inclusive infrastructure services with emphasis on serving the poorest segments of their populations.

Creating bankable projects and supporting viable transactions
Managing counterparty and default risk
Strengthening political, legal and regulatory frameworks and managing related risks
Increasing transparency and accountability
Enabling access to the infrastructure market place

All parties (government, private sector, and civil society) have timely and transparent access to relevant and reliable information

G&SNA can manage their financial and contingent liabilities for infrastructure projects and are creditworthy counterparties/offtakers
Political and legal frameworks are supportive of PPPs and SNA debt financing
Regulatory regime is supportive of PPPs and SNA debt financing

SNA: Sub-national authorities/public utilities
G&SNA: Government entities and sub-national authorities/public utilities

PROJECT AND TRANSACTION STREAM
INSTITUTION BUILDING STREAM
PARTNERSHIPS

ASSUMPTIONS

Goal Level:
1. High quality, accessible and inclusive infrastructure services contribute to the reduction of poverty levels through a) increases in well being at the household level via increased assets and better functioning markets of goods and services, and b) increased economic growth via increases in physical and human capital and reduced inefficiency and waste.
2. Poverty eradication requires multiple interventions that go beyond the development and access to infrastructure.
3. The cost of required investments in the development, maintenance, expansion, operation and delivery of quality, sustainable and inclusive infrastructure services is greater than G&SNA revenues.
4. Rapid urbanization is placing growing demands on governments and sub-national entities in the developing world to deliver essential infrastructure services.

Subgoal Level:
1. There is strong political will from key government authorities at the national and sub-national levels to consider and facilitate private sector participation in infrastructure investments.
2. There is a minimum level of development of the local private sector.

Assumption for Outcome Level:
1. There are multiple organizations working at different levels and within different geographic locations on each of these outcomes.

The proposed theory of change aims to describe the overall problem that PPIAF (through SNTA and other technical assistance activities) and other similar and/or complementing actors are attempting to tackle, what their overall goal is and the different components required in order to reach that overall goal. The ToC goes beyond what a single actor can achieve and aims to thoroughly describe the infrastructure gap problem. The ToC also includes the assumptions that need to be true at each level in order for it to be as logical and truthful as possible. It also establishes a pro-poor growth and gender focus as a common criteria to be considered, where appropriate, in the analysis, design, implementation, monitoring and evaluation of the interventions contributing to the secondary outcomes, outcomes, sub goals and goal.
As the theory of change demonstrates, several conditions need to be in place to enable private sector participation in infrastructure projects that leads to poverty reduction in developing countries. These include conditions such as rule of law and anti-corruption policies to ensure that the benefits of infrastructure projects are accessible by the entire population and these services reach the poorest members of society. An outline of the theory of change is presented figure 1.

3.3 PROGRAMMATIC APPROACH

PPIAF has led the way in creating an enabling environment for private sector investment in infrastructure in many developing countries. This has provided PPIAF with significant coverage in the type of activity it supports (ranging from upstream policy work through to transaction advice) and geographical coverage (PPIAF has worked in 127 countries since 2000). However, the learning from PPIAF’s previous activities and program evaluations suggests that a reactive and demand-led PPIAF only helps to close pre-identified gaps. In this model, we are less able to fully diagnose the obstacles facing countries’ attempts to attract private sector investment in infrastructure and we do not provide the full suite of institution-building solutions necessary to achieve the impact to which we aspire in our theory of change. To achieve our goal, we believe that we need to adopt a more programmatic approach that will incorporate the elements detailed in the following sections.

How we will work: A Thematic Approach

PPIAF’s approach will combine coverage and focus. We will seek to balance interventions that support providing access to basic infrastructure services in a single sector with the ones that promote growth and sustainability on a transformational basis by working across sectors.

This thematic approach retains some of the existing features of PPIAF’s work that our stakeholders appreciate, such as our responsiveness and our ability to plug funding gaps. PPIAF will continue to focus our support across the core infrastructure sectors of energy, transport, water and sanitation (including solid waste management and irrigation) and telecommunications based on the needs of client countries. In addition, key cross cutting themes will inform the design of all our activities, including the improvement of access to infrastructure and services, managing the global trend of increased urbanization and ensuring gender impacts of infrastructure are considered. Moreover, PPIAF will retain and increase our focus on addressing the impact of climate change through:

- Incorporating adaptation and mitigation efforts in projects;
- Designing policies towards ‘climate resilient’ infrastructure development, particularly in vulnerable regions; and
- Promoting ‘green growth’ for resource optimization and security.

However, we propose to structure our interventions in a way which maximizes our impact by providing a better distinction between the types of intervention that PPIAF can make and how these can differ according to scale and potential impact. We propose the following three broad types of intervention. PPIAF will seek to engage and coordinate with partners at all levels of intervention.

Activity level interventions

Scope: Activity level interventions are singular interventions that will provide direct technical assistance to address specific barriers to private investments in infrastructure services. Though smaller in value (an average activity size of $150,000), such interventions could provide high impact for the populations in question. The activities in this stage will enable PPIAF to assess the sequential activities that are required to scale up the impact. As per the theory of change, these activities will focus on institution building but will often link to partners’ efforts to develop infrastructure projects and programs.
Example: Typical activities include

- Strengthening regulatory framework for private sector participation in infrastructure (PPP);
- PPP options analysis for private sector participation in a specific project (PPP); and
- Improving revenue collection arrangements for a sub-national entity (SNTA).

**Sector level interventions**

**Scope:** These interventions will address wider issues in a sector to facilitate a program for private sector investments and thereby support growth. Such interventions aim to support sector reforms ranging from sector strategy, sector-specific policy development, legal, regulatory and institutional arrangements. We expect such interventions to be multi-year engagements and thereby require significant allocation of PPIAF funding. A typical activity might involve allocation of $250,000 - $500,000 per annum. Again, these activities will typically focus on institution building but will form part of a wider sector program being delivered by one or more partners:

**Example:** Typical activities include

- Developing legal, regulatory and planning frameworks for private sector participation in solid waste management (PPP);
- Developing institutional and regulatory framework for multi-modal integration to support mass transit system (PPP); and
- Public expenditure review, financial management systems and credit enhancement for utilities (SNTA).

PPIAF’s activity and sector-level interventions will provide coverage support to continue to increase access to core infrastructure and support sector reform. Continuing this work will maintain our global reach, increase our knowledge and learning and, most importantly, allow us to initiate deeper engagement with countries and build the basis for designing higher-impact thematic programs. PPIAF’s programmatic approach and thematic programs are discussed below.

**Thematic Solution Area Programs**

**Scope:** Our programmatic approach involves multi-year programs that go beyond the traditional PPIAF activities. These interventions have the potential for transformational results from, for example, improved trade flow through cross-country and/or regional interconnectivity infrastructure. Regional integration projects also enable smaller and poorer countries to work together to develop projects of sufficient scale to attract private sector interest. Such interventions will require PPIAF to coordinate with various partners such as international development agencies, think tanks, regional development agencies and private sector organizations to develop innovative ideas to plan, finance and implement the programs. The role of international and domestic private sector is extremely critical in such programs, ranging from capital investment, and knowledge transfer and asset management to market development.

PPIAF will also provide thought leadership and allocate significant resources to drive sub-programs along with other partners. We envisage that a typical activity in this stage would be in the region of $300,000 – $1,000,000 per annum in value, almost inevitably multi-year and cover a range of different types of activities.
Thematic Solution Area Programs: Example programs

- PPI Institution Building: Tanzania PPP Program, PPP Country Support - UEMOA Feuille de Route, Kampala Municipal Authority PPP Program
- Creditworthiness: Creditworthiness Academies, Creditworthiness Program
- Energy Efficiency and Climate Change: Joint PPIAF-SUEEP Program, Southern Africa Power Pool
- Regional Integration: UEMOA Regional PPP, Caribbean Regional PPP Framework
- Access to Infrastructure Finance: Ghana Infrastructure Facility

Where we will work: Geographic Prioritization and Regional Focus

The geographic focus of PPIAF will be driven by where we can make the most impact – i.e., the countries or regions where PPIAF can initiate the largest change and best achieve the goal of increasing private sector investment in infrastructure and contribute to the eradication of poverty and increasing shared prosperity. The magnitude of impact in PPIAF’s interventions in any one country or region is likely to be a product of a number of inter-related and sometimes competing factors which include:

- **Income and poverty levels**: Investment in infrastructure is going to have a disproportionately high impact in the places where access to key services, income and consumption are all at a low base. Increasing investment in these geographies can lead to dramatic increases in economic opportunity and well-being amongst the target populations. This includes fragile and conflict affected states, where core infrastructure may have been destroyed or reached disrepair or where conflict itself has prevented wide-scale access.

- **Infrastructure investment climate**: Private sector investment in infrastructure is unlikely to ever be initiated systematically in geographies where certain institutional, financial and legal fundamentals are missing. The absence of these fundamentals reduces the probability of PPIAF reaching its goals directly. While improving these fundamentals is a core aspect of PPIAF’s theory of change, there has to be some minimum level at which PPIAFs intervention is valuable and it can enable a change that is within its (and its partners’) abilities.

- **Political-economy challenges**: PPIAF acknowledges the challenges created by political-economy in the countries in which we operate. We manage this challenge through sustained engagement and commitment by bringing out the economic, environment and social benefits of an intervention to create a compelling need. However, we also acknowledge that there are certain countries where the political-economy challenges are too great and therefore will reduce the effectiveness of PPIAF interventions.

- **PPIAF and partner presence**: PPIAF is most likely to initiate change through its interventions in the geographies where it has already established relationships with governments and regional entities and where there is alignment with those of our partners.

- **Donor priorities**: As a multi-donor trust fund, PPIAF needs to incorporate to the extent possible the priority countries of the donor group.

In developing this strategy, we have attempted to synthesize these factors through an evidenced based prioritization exercise to determine where to prioritize deployment of PPIAF resources. Whilst the results show a clear ranking of countries for where PPIAF might prioritize resources, the results are perhaps better explained when analyzed at the regional or sub-regional level (i.e., through a number of country clusters). The reasons for analyzing at regional or sub-regional are several and include:

- **Regional and sub-regional projects**: Some genuinely transformational infrastructure investments will happen at the regional level, for example through the development of trade corridors, regional electricity grids and regional approaches to green growth initiatives.

- **Shared agendas**: Many regions and sub-regions share similar developmental, institutional, cultural and political challenges that will inform many aspects of the design of PPIAF interventions that can be of relevance not just for one country but can be replicated to a large extent in neighboring countries.
• **Working with regional entities:** Many clients and partners of PPIAF are not only sovereign governments but are regional entities; these include super-national governmental organizations (e.g. UEMOA), regional development organizations (e.g. TradeMark East Africa) and regional development banks (e.g. AfDB and BOAD).

• **Geographical proximity:** The practicality of PPIAF trying to serve its clients and work with its partners is helped by focusing on countries that are grouped together rather than dispersed. This will allow PPIAF to base its regional presence around a concentration of countries that are all within easy reach. This will help forge strong client relationships and in turn this will increase the effectiveness and impact of our interventions.

The results of our analysis are shown in the table below and we propose that this forms the basis of our geographical prioritization.

<table>
<thead>
<tr>
<th>Region</th>
<th>Cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sub-Saharan Africa</strong></td>
<td>Lake Victoria (Kenya, Tanzania, Uganda, Burundi*, Rwanda)</td>
</tr>
<tr>
<td></td>
<td>Atlantic (Burkina Faso, Senegal, Guinea Bissau*, Gambia, Guinea, Liberia*)</td>
</tr>
<tr>
<td></td>
<td>Gulf of Guinea (Sierra Leone*, DRC*, Republic of Congo*, Cote d’Ivoire*, Ghana**)</td>
</tr>
<tr>
<td></td>
<td>Central West (Nigeria, Togo*, Benin, Cameroon, Gabon, Eq Guinea)</td>
</tr>
<tr>
<td></td>
<td>Luso (Zambia, Angola, Mozambique, Malawi*)</td>
</tr>
<tr>
<td><strong>South Asia</strong></td>
<td>Central (Afghanistan*, Pakistan, India, Sri Lanka)</td>
</tr>
<tr>
<td></td>
<td>Bay of Bengal (Nepal,* Bhutan, Bangladesh, Maldives)</td>
</tr>
</tbody>
</table>

* Fragile and Conflict States ** Also one of the SEC Middle-Income Countries

In addition to these clusters, we will continue to work with Middle-Income Countries where activities are covered by the SECO MIC non-core trust fund.

These clusters represent a concentration of countries where PPIAF can make a significant impact and help initiate increases in private investment in infrastructure and contribute to the eradication of poverty. On that basis, a significant share of PPIAF resources (both financial and human) will be dedicated to these country clusters. We propose that 60% of our grant funding (excluding knowledge products) will be directed towards the priority country clusters.

However, we also believe that it is important to retain the global coverage of PPIAF and therefore resources should still be available for other countries and regions. Retaining coverage to these countries with the remaining 40% of our grant funds not only helps achieve change and impact, but also allows PPIAF to further obtain knowledge and global best-practice that it can then apply to low-income countries. This is why at least some of PPIAF’s portfolio, particularly using funds provided by the SECO Middle-Income Country non-core trust fund, should provide support to the middle-income countries that are today facing many of the problems that our target countries will experience in the future and so learning and applying knowledge from these activities is vitally important. The SECO priority countries include Colombia, Egypt, Ghana, Indonesia, Peru, South Africa, Tunisia and Vietnam.
Our strategy calls for us to work with fragile and conflict-affected states and many of them are included in the regional clusters identified above. In addition, we will continue to pursue activities with the fragile and conflict-affected states with which we are already working including Iraq, West Bank and Gaza, Egypt, Kosovo, Haiti, Ethiopia, Madagascar, Timor-Leste and the Pacific Islands where we are developing a programmatic approach to their transport needs.

Working in Partnership
The successful implementation of our strategy hinges on the establishment of partnerships to leverage and complement PPIAF’s own resources and to share knowledge as demonstrated in the theory of change.

Since its inception in 1999, PPIAF has worked effectively in partnership with regional development banks, NGOs, multi-donor trust funds (such as WSP, ESMAP and ESMID), bi-lateral donor facilities and government agencies. As a Global Partnership Program of the World Bank, PPIAF works very closely with colleagues in the World Bank, IFC and, less frequently, MIGA. We have also been working with a number of RDBs, bi-lateral agencies and other regional entities including:

- Sub-Saharan Africa: AfDB, AFD, C40, MCC, WSUP and others;
- South Asia/East Asia Pacific: ADB, Australia (DFAT); and
- Latin America: IDB, MCC.

PPIAF has the capacity and track-record to engage with partners along a spectrum of collaborative arrangements. Given that we operate within the World Bank, our activities are implemented in a way that is consistent with the Bank’s policies and procedures. Our donors expect our activities to be implemented in a way which is consistent with the policies and procedures of the World Bank. Consistent with our commitment for impact and within the constraints imposed by our role as trustee, we are committed to working in partnership with other agencies through, for example, co-funding, joint implementation, co-ordination of activities and knowledge sharing.

We also recognize the importance of becoming more transparent in relation to our activities. As part of the strategy, we will publish a list of priority activities. We have published, for the first time, the list of priority projects with significant potential for investment in infrastructure. In all of these projects PPIAF is playing a key role in developing the investment framework and institutional capacity consistent with our theory of change. They are all challenging projects but successful implementation has the potential to accelerate the eradication of poverty and the creation of shared prosperity by enabling infrastructure investment.

By publishing this list, we will be able to enter into partnerships that enable us to increase our impact, crowd in other actors to accelerate the implementation of the projects and create a basis for sharing knowledge.

Knowledge Management
To reinforce further the benefits of a more programmatic approach and for PPIAF to become recognized as a center of excellence, PPIAF must also develop a strategy to manage and leverage the knowledge gained from our work which is derived from three main sources:

- The sector and PPP expertise of the PMU staff;
- Learning directly from PPIAF’s technical assistance work; and
- The knowledge products and toolkits produced by PPIAF.
The PMU will oversee and provide leadership on the generation of knowledge from PPIAF’s technical assistance activities. The PMU will also lead some knowledge initiatives directly and will partner on the implementation of strategic knowledge initiatives with the World Bank Group and other partners. Finally, World Bank TTLs will continue to lead knowledge activities that align with PPIAF’s business and communications plans.

In delivering our knowledge to clients, partners and other interested parties, PPIAF will ensure that its knowledge system works alongside its learning system, reinforcing PPIAF’s ability to provide high quality technical advice to clients. Furthermore, for this system to work to its greatest impact, PPIAF will leverage the expert knowledge of strategic partners in the private sector and in the water, sanitation, transport, energy and telecommunications sectors. The figure below synthesizes this process.

### Figure 2: PPIAF Knowledge System

3.4 RESULTS-BASED APPROACH
To implement the strategy successfully, we need continually to measure our performance and learn from our application of the theory of change through a results-based approach. A new results framework (or logframe) based on the theory of change will be at the core of this approach. A strengthened monitoring, evaluation and learning (ME&L) system that captures the impact and effectiveness of, and the lessons learned from, PPIAF activities will be the key tools that will enable us to maintain the results framework and ensure it is an accurate reporting tool for the Program Council. The improvements to the ME&L system will include the addition of a learning system to disseminate the lessons learned and best practices identified in the M&E process. Finally, we will establish additional quality control measures and client feedback mechanisms to ensure the quality of our technical assistance activities.
Results Framework

In developing the framework, we are attempting to be more specific about the indicators we measure and identify exactly where PPIAF activities create outcomes and impacts for our client countries. We have chosen to focus our results framework at the ‘intermediate outcome’ level, which distinguishes results that are achieved directly as a result of PPIAF’s activities from those with lower causality links. We will continue to report on indicators at the outcome and impact level to demonstrate where PPIAF’s activities have contributed to broader outcomes and impacts.

In designing the results framework, we have recognized that PPIAF’s work is typically in the early stages of the project cycle and many of our activities do not immediately lead to visible outcomes or impacts. Consequently, there can be a time-lag until the realization of these outcomes or impacts. Attributing the associated results of a particular infrastructure project directly and exclusively to PPIAF’s intervention is also difficult because other causal factors and complexities are usually involved.

The theory of change highlights the decreasing attribution of impacts to PPIAF activities as the results move from the intermediate outcomes to impacts achieved at the goal level. Moreover, as the theory of change describes the overall goal PPIAF and its partners aim to achieve, it highlights the relationship between PPIAF’s efforts and those of its partners. This has helped us to identify which outcomes PPIAF directly contributes to and will assist in developing the appropriate measurement indicators for the new results framework.

ME&L System

The ME&L system includes the process and tools that we will use to capture the data necessary to report on the indicators outlined in the new results framework. Building on the existing systems and tools, the ME&L process will be fully integrated into the identification and design of activities, ongoing monitoring of activities and quality of deliverables and evaluation of completed activities. It will also be integrated with the learning system (described below) to use the lessons learned from PPIAF activities to strengthen future interventions and share the knowledge gained from these lessons with our clients, partners and donors.

To become a Center of Excellence, PPIAF must incorporate lessons learned and best practices from its previous activities into current operations in a systematic way. PPIAF will share these lessons with partners, clients, and other stakeholders through mechanisms such as webinars, seminars, and knowledge products.

To capture these lessons, PPIAF will conduct a thorough learning exercise for its programmatic activities to identify and improve our understanding of the key factors that contribute to establishing an enabling environment for private sector investment in infrastructure. The learning system will be implemented in accordance with the project cycle for PPIAF-funded activities, which will include baseline assessments for key indicators as outlined above. Intervention-specific M&E plans will also be developed for sector, multi-sector and regional interventions to monitor key indicators and capture the lessons learned from these activities.

In addition to capturing the results of and lessons learned from PPIAF interventions, the ME&L system will assist us to assess the quality of our activities and outputs. Quality-control checks will be built into the ME&L process to determine whether the outputs produced by activities are of a suitable quality and useful to our clients. PPIAF will also measure systematically the satisfaction of our clients, donors, and other stakeholders through stakeholder satisfaction surveys and interviews.
3.5 HOW WE WILL ORGANIZE

Implementation Model

PPIAF activities are typically implemented by World Bank task-team leaders (TTLs) with the PMU performing quality control and supplementary fiduciary oversight. On occasions, PPIAF has also taken a proactive role in implementation, whether by supporting task teams or by directly leading activities on its own.

In considering our current and future implementation model, we have used the diagram below to outline five models of PPIAF involvement in implementation, from limited involvement to full leadership by PPIAF.

Figure 3: PPIAF Implementation Models

A more proactive origination/design of activities by PPIAF implies a heavier implementation role although it is possible, and desirable, that PPIAF originates an activity and, in the process of designing it, identifies the staff capacity (outside of PPIAF) that will manage the activity throughout implementation. The experience of PPIAF, and particularly activities undertaken under the SNTA window, has shown great potential for a more proactive and systematic role by the PMU in project implementation using the models to the right of the purple line.

To increase the impact of our activities, our strategy calls for a move toward greater PMU engagement in activity origination and implementation through designing, implementing and monitoring the activities along with other partners. This approach, together with our intention to get close to our clients, requires an increase in PMU resources in regions, which is explained in the ‘Regional Presence’ section below.

Our greater involvement in activities combined with our regional presence will ensure:

- Greater alignment of proposals to PPIAF’s strategic objectives;
- Greater progress in implementation;
- More accurate M&E capacity during/after implementation; and
- Continuous feedback from activities to PPIAF’s center of excellence, which in turn will improve PPIAF’s effectiveness as a PMU.
Functions of the PMU
The new strategy requires PPIAF to align the PMU functions with the theory of change, thematic and geographic priorities, partnership principles, implementation model and a robust monitoring & evaluation framework. To increase impact, the PMU will undertake a range of functions under the categories below:

- Strategic Functions;
- Implementation Functions; and
- Support Functions.

Strategic Functions – The strategic functions include setting strategic direction and priorities for PPIAF activities in alignment with Donor objectives; reporting and maintaining relationships with Donors; building partnerships and managing existing and potential suppliers; and providing sectorial level technical guidance and support for design and implementation of activities. A key aspect of our strategic function will be to implement an effective M&E framework.

Implementation Functions – The objective of this function is to ensure the activities are originated, designed, monitored and evaluated appropriately to deliver high impact and achieve value for money. During the design and implementation of activities, the PMU will have a key role in ensuring the activities closely match the requirements of the client. This will involve close PMU engagement in the procurement process and applying our learning system to drive value by benchmarking activity budgets and assessing the previous track-record of consultancy firms and individuals. Once an activity is being implemented, the PMU will continue to assess quality, measure success and monitor overall value for money. Once an activity is completed, PPIAF will identify and follow-up with government counterparts on activity outputs and assess the need for sequential activities consistent with a programmatic approach including managing direct relationship with the government counterparts and representatives of partner agencies in respective countries.

Support Functions – The support function of the PMU includes day-to-day administration of the trust fund, reporting to donor and external counterparts, managing human resources, finance, budget and IT systems. PMU functions will be covered by staff in headquarters and our regional offices. The role and extent of the regional presence is shown below.14

Regional presence
The new strategy focuses on resourcing that addresses the requirements of:

- Regional presence, to be closer to the client;
- Improving relationships with government and regional development banks and agencies;
- Ability to oversee more actively implementation and monitoring, evaluation and learning;
- Create sequential activities in support of a programmatic approach; and
- Reduce PMU travel-related costs.

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14 The PMU’s support functions are separate from the World Bank’s role of trust fund administration. The World Bank provides administration and operational services to trust funds; the services and administration fee are set out in the Administrative Agreement for each trust fund. There is a common core of banking/financial services that applies to all trust funds, including receiving, holding, investing, disbursing and reporting on funds.
The location of PPIAF’s regional presence to implement the new strategy is driven by geographic priorities, as identified in previous sections. While the geographic priorities enable PPIAF to focus on target clusters, the resourcing arrangement will be flexible to meet other countries’ needs, as appropriate. We will also take into account the possibility of co-locating with RDBs or development agencies should it increase the effectiveness and value for money of PPIAF’s operations.

**Sector expertise**

The PMU’s core sector expertise is built around basic infrastructure sectors. The Sub-National Technical Assistance program has also been configured as a separate sub-sector to address specific cross-sector issues such as creditworthiness and municipal financing. The PMU will offer sector expertise for our core sectors - energy, transport and water - from headquarters. It will also extend to other related sectors such as irrigation and telecoms on a case by case basis.

As a result of the PMU taking a more active role in implementation, the PMU requires sector expertise, to provide technical support and guidance in designing and implementing activities that creates high impact as well as supporting the knowledge functions of the PMU.

**4.6 FUNDING SCENARIOS**

To implement the strategy additional financial resources, which are set out in detail in the Business Plan, are required from our donors. We forecast that PPIAF will have a funding balance across its core and non-core funds of around $30 million by the end of this fiscal year 2014. This balance is based on a forecast of $20 million of new activities being approved during this year and with existing staffing levels remaining largely the same. We reviewed the current funding status and assessed the funding requirements through various scenarios to deliver the strategy base case.

The strategy base case, which is elaborated in the Business Plan, has a funding requirement of circa $22 million per annum based on:

- Estimated annual activity approval cost of circa $20-30 million per annum
- Additional resourcing cost to cover regional staffing of circa $2 million, taking the total PMU staffing cost from current $2.5 million per annum to be circa $4 million per annum

With an expected balance of $35m at the start of FY15, it is clear the strategy cannot be implemented without further contributions from the donors. The details to support the funding requirements are contained in the Business Plan.
PPIAF is a multi-donor trust fund that provides technical assistance to governments in developing countries to develop enabling environments and to facilitate private investment in infrastructure. Our aim is to build transformational partnerships to enable us to create a greater impact in achieving our goal.