



Regional: Improving Infrastructure and State-Owned Enterprise Governance for Sustainable Investment and Debt Management

Project Name	Improving Infrastructure and State-Owned Enterprise Governance for Sustainable Investment and Debt Management	
Project Number	55111-001	
Country	RegionalArmeniaBangladeshIndonesiaMaldivesMongoliaNepalChina, People's Republic ofTajikistan	
Project Status	Active	
Project Type / Modality of Assistance	Technical Assistance	
Source of Funding / Amount	TA 6749-REG: Improving Infrastructure and State-Owned Enterprise Governance for Sustainable Investment and Debt Management	
	Technical Assistance Special Fund	US\$ 2.50 million
Strategic Agendas	Inclusive economic growth	
Drivers of Change	Governance and capacity development Knowledge solutions	
Sector / Subsector	Public sector management - Public expenditure and fiscal management - Reforms of state owned enterprises	
Gender Equity and Mainstreaming	Some gender elements	
Description	<p>This knowledge and support technical assistance (TA) responds to the requests of developing member countries (DMCs) of the Asian Development Bank (ADB) to strengthen public sector capacity for the development of sustainable infrastructure, including through state-owned enterprises (SOEs), in fiscally responsive ways. The TA will support strengthening infrastructure governance, including alignment with the quality infrastructure investment (QII) principles, by focusing on the policy, institutional, and fiscal frameworks in specific infrastructure projects in ADB's country programs and portfolio. As part of this focus, the TA will identify means to reduce liabilities resulting from weak SOE performance. The TA project's key outputs are to (i) improve legal, policy, and regulatory frameworks for infrastructure governance and SOE; (ii) complete country assessments, guidelines, or methodologies on public investment and/or fiscal sustainability; and (iii) disseminate policy experience on infrastructure governance for finance ministries, line ministries, and SOEs in selected ADB DMCs.</p> <p>The TA is in line with ADB's Strategy 2030 operational plan for operational priority (OP) 6 on strengthening governance and institutional capacity, and contributes to OP 2 on accelerating progress in gender equality and OP 4 on making cities more livable (footnote 1). It is also aligned with the strategic priority areas in the Asian Development Fund 13 replenishment on quality infrastructure and debt management. The TA is included in the 2021 ADB Management-approved results-based work plan of the Sustainable Development and Climate Change Department.</p>	

Project Rationale and Linkage to Country/Regional Strategy

Asia and the Pacific continues to confront a significant public infrastructure deficit 400 million Asians live without electricity, 300 million without safe drinking water, and 1.5 billion without basic sanitation. ADB forecasts the annual infrastructure investment gap for 25 DMCs (i.e., the projected need to maintain growth momentum, tackle poverty, and respond to climate change less the current level of investment) during 2016 2020 at \$459 billion, or 2.4% of gross domestic product. Access to sustainable infrastructure has become even more critical to stimulate economic growth as the region emerges from the coronavirus disease (COVID-19) pandemic. Financing this investment will require ADB's DMCs to increase domestic resource mobilization efforts while taking on substantial debt at a time when many developing economies have seen the fastest and most broad-based increase in debt in the past 50 years, further accentuated by the collapse in economic activity and revenues because of COVID-19. While increased infrastructure spending (for both social and economic infrastructure) will help stimulate economic recovery in some countries, other countries may not be able to provide enough fiscal support because of their debt and revenue positions, leading to higher borrowing costs and reduced infrastructure investments, or prioritizing spending on more immediate needs. Against this backdrop, it is important that infrastructure spending is undertaken efficiently and in line with the six principles of QII (footnote 3). The value addition is to help ADB's DMCs strengthen effective public investment management (PIM) with a focus on fiscal risk and debt management to promote a sustainable infrastructure project pipeline. The combination of (i) strengthened policy, legal, regulatory, and institutional frameworks and (ii) management of the decision-making process in traditional public sector investments, SOEs, and public private partnerships (PPPs) will be critical to maximize the impact of infrastructure development and support fiscal governance, especially for countries that have elevated debt and low growth.

First, DMCs with stronger fiscal management institutions have more predictable, credible, efficient, productive, and sustainable investments that deliver social, environmental, and economic objectives. Better infrastructure governance improves both the volume and quality of infrastructure investment decisions and overall implementation across the life cycle of an asset. Improved PIM and better integration of capital and recurrent expenditures are more likely to ensure that projects are built on time and on budget, thereby containing risks of ensuing debt buildup. The key drivers of infrastructure governance are investment efficiency, financial sustainability, and transparency in all decision-making processes. The International Monetary Fund (IMF) found that countries in Asia and the Pacific, on average, lose 32% of potential benefits of public investment in infrastructure because of inefficiencies in the investment process, and poorer economies face an even greater efficiency gap of up to 40%. This results in projects that are neither properly costed upstream to take into account risks, including climate risks, nor integrated with the medium-term framework to inform public investment decisions. Many jurisdictions lack transparent fiscal data on infrastructure investment because of weak policy and regulatory frameworks and/or limited experience in assessing subsidies and contingent liabilities.

Second, weak governance and underperforming institutions are a constraint to delivery of basic services and infrastructure development, and reduce the potential for private sector investment. SOEs play a major role in infrastructure investment and in the operation and maintenance (O&M) of infrastructure assets. Poor SOE governance, including ineffective SOE oversight, underfunded and opaque policy mandates for SOEs, and weak governance at the enterprise level, can directly impact public finances through SOE losses and lower profitability. These, in turn, lead to large transfers from the budget and the creation of high SOE indebtedness and other contingent liabilities. Poor SOE governance can also directly and indirectly raise costs of infrastructure and lower its quality, especially over the longer term, and may undermine opportunities to bring in other sources of finance. SOE reform can reduce these liabilities, professionalize state asset management and oversight, introduce two-sided balance sheets for governments that show assets as well as liabilities, improve SOE governance and financial discipline, and allow for nonsovereign borrowing by SOEs and other forms of private sector participation. All these create new ways to finance infrastructure investment, improve its management, and create sovereign fiscal space. Third, the public sector is turning to the private sector to explore PPPs as a means of developing and managing critical infrastructure. Prudent approaches to PPPs should be adapted, especially in developing countries without well-developed national infrastructure governance institutions. PPPs are not a panacea, and do not automatically lift fiscal constraints. Although user fees may contribute to fiscal sustainability, international experience has often resulted in a fiscal illusion from the fact that PPPs are recorded off-budget and are not accounted for properly on top of public debt as a combination of contingent liabilities, fiscal commitments for future (availability) payments, and foregone direct revenue generation to the government (footnote 7). Countries also need to ensure that investment decisions for all investment projects not just PPPs are first based on internally vetted cost benefit analysis and the result of a prioritization process within their multiyear investment planning aligned with sector strategies. Once the project analysis demonstrates value for money (VfM), only then should a decision be made on which option offers the best VfM a PPP or a traditional infrastructure procurement.

Improving infrastructure governance requires a robust institutional response and a shift from a conceptual understanding of QII to DMCs actually applying QII to their portfolio of public and private investment projects. Based on the findings in the 2020 Development Effectiveness Review, the share of operations supporting governance and/or capacity development fell from 74% of projects signed during 2016 2018 to 68% during 2019 2020. This finding is underscored by the sector-wide evaluation on ADB's energy policy and program during 2009 2019, which showed that ADB programs had limited effectiveness in capacity building and governance. The sector-wide evaluation of ADB support for the transport sector during 2010 2018 also found that the sustainability of transportation services and assets was undermined by weak institutions and governance marked by poor planning, budgeting, and revenue generation. Further, a synthesis report of evaluations of projects in the water and other urban infrastructure and services sector highlights related weaknesses in the sustainability of infrastructure assets. The main issues affecting sustainability of urban water projects are difficulty in making realistic cost estimates for O&M, reluctance to charge appropriate tariffs, and lack of efficiency in O&M expenditure. The evaluation of ADB's support to PPPs found a lack of early-stage screening of PPP projects using VfM and cost benefit analysis to ensure the allocation of funding to projects with the highest value for the economy.

This TA will complement other TA projects aimed at improving institutional capacity, and it supports the Sustainable Development Goals (SDGs), including SDG 9 (industry, innovation, and infrastructure); SDG 11 (sustainable cities and communities); SDG 16 (peace, justice, and strong institutions); and SDG 17 (partnerships for the goals). It will strengthen infrastructure governance in PIM agencies and SOEs, and have broad impacts on ADB's Strategy 2030 OPs as shown in Appendix 3.

Impact Efficiency in public infrastructure investment in selected ADB DMCs enhanced

Project Outcome

Description of Outcome Governance and institutional capacity in life-cycle management of infrastructure investments, including through SOEs, in selected ADB DMCs improved

Progress Toward Outcome

Implementation Progress

Description of Project Outputs Legal, policy, and regulatory frameworks for infrastructure and SOE governance improved
Country assessments, guidelines, or methodologies on public investment and/or fiscal sustainability completed
Policy experience on infrastructure governance disseminated

Status of Implementation Progress (Outputs, Activities, and Issues)

Geographical Location Armenia - Nation-wide; Bangladesh - Nation-wide; China - Nation-wide; Indonesia - Nation-wide; Maldives - Nation-wide; Mongolia - Nation-wide; Nepal - Nation-wide; Tajikistan - Nation-wide

Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design

During Project Implementation

Business Opportunities

Consulting Services	ADB will engage the consultants following the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions. The TA will require 88 person-months of international and 53 person-months of national individual consultant inputs with expertise in governance, PIM, public financial management, law and regulations, public sector management, procurement, SOE, anticorruption, and/or capacity and institutional development, operating within and across sectors and themes. Consultants will be engaged either through individual consultant selection, resource person or through a firm (using consultant qualification selection for small contracts with prior consultation with the Procurement, Portfolio and Financial Management Department before proceeding with the selection). The Governance Thematic Group will manage all consultants unless otherwise agreed with operations departments. Where appropriate, output-based contracts will be considered for administrative efficiency and for a simplified disbursement process.
Procurement	The TA will have the option to use service provider contracts for nonconsulting related activities, for firms or individuals, particularly for seminars, workshops and training activities. Prior consultation with the Procurement, Portfolio and Financial Management Department will be done before proceeding with the engagement of service providers to ensure compliance with the related staff instruction on ADB Procurement Policy: Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time), Procurement Regulations for ADB Borrowers (2017, as amended from time to time), and, in general, ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.

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Timetable	
Concept Clearance	31 May 2021
Fact Finding	24 Feb 2021 to 24 Feb 2021
MRM	-
Approval	15 Jul 2021
Last Review Mission	-
Last PDS Update	15 Jul 2021

TA 6749-REG

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
15 Jul 2021	-	15 Jul 2021	31 Dec 2024	-	-

Financing Plan/TA Utilization						Cumulative Disbursements		
ADB	Cofinancing	Counterpart				Total	Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
2,500,000.00	0.00	0.00	0.00	0.00	0.00	2,500,000.00	29 Sep 2021	0.00

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