National Audit Office

Report
by the Comptroller
and Auditor General

Department for International Development

Oversight of the Private Infrastructure Development Group

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National Audit Office

Department for International Development

Oversight of the Private Infrastructure Development Group

Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

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This report examines whether the Department for International Development's interests in, and oversight of, the Private Infrastructure Development Group (PIDG) deliver value for money and secure benefits for those in poverty in the targeted countries.

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Contents

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Key facts

£700m

maximum anticipated DFID funding of PIDG between 2012 and 2015

70%

DFID's share of all donors' funding to PIDG by the end of 2013

185m

number of people PIDG estimates will benefit from better services because of its agreed projects

£6.2 billion	reported by PIDG as the level of total investment in 35 PIDG-supported projects which are fully constructed and operational, including £220 million of donor funds
96 per cent	of DFID country teams agreed that lack of adequate infrastructure was a major barrier to economic development
£27 million	average amount of DFID's funding held unused in the PIDG Trust between January 2012 and February 2014
50 million	number of people PIDG estimates will benefit from new services from its investment in one project alone
12	deals agreed by PIDG in 2013, compared with a target set in 2012 of agreeing 20
£6.5 million	amount paid by DFID to PIDG in December 2011, which was only paid out to the relevant PIDG facility in April 2014
11,500	estimated number of jobs created partly because of PIDG's investment in a Ugandan hydroelectric power plant

Summary

1 The Department for International Development (DFID) leads the UK's effort to fight global poverty. In recent years, DFID has focused on boosting economic development. It considers that while economic growth in poor countries has increased in the last decade, for several countries it remains far below levels needed to lift them out of poverty.

2 In January 2014, DFID published a strategic framework: '*Economic development for shared prosperity and poverty reduction*'. It considers that trade and investment contribute to economic development and thus help countries move from aid dependency, by raising productivity, creating jobs and boosting incomes. Inadequate infrastructure, shallow financial sectors and weak capital markets are major barriers to trade and investment. DFID told us that it plans to double spending on economic development to £1.8 billion by 2015-16, subject to there being enough proposals providing value for money.

3 DFID identifies a need for substantial infrastructure investment in developing countries which cannot be met by public funding and aid alone. It therefore aims to increase private investment from both international and domestic investors. It describes the Private Infrastructure Development Group (PIDG) as the most important way of supporting this aim. PIDG is a multilateral organisation, founded by four donors including DFID in 2002, and governed by development agencies from eight countries and the World Bank.

4 PIDG seeks to overcome reluctance to invest because of concerns about finance shortages, high initial costs and low skill levels. It aims to operate where the private sector would not otherwise invest, to demonstrate the commercial viability of infrastructure projects. Donors commit funds which PIDG invests through its investment vehicles ('facilities') to mobilise investor capital and expertise for infrastructure investment. By stimulating infrastructure investment, PIDG expects to deliver substantial benefits to people in developing countries, including more and better services and jobs. This model is widely seen as innovative.

5 DFID sees PIDG as unusual among multilateral bodies in its focus on poor and fragile states, providing a means of targeting support at the countries where needs are greatest. DFID has increased its funding of PIDG from a total of £49 million in 2010 and 2011, to £258 million in 2012 and 2013. It also established a performance-related 'contestability mechanism' under which facilities can apply for £223 million of extra funding.

Scope and approach

6 This report examines whether DFID's interests in, and oversight of, PIDG deliver value for money and secure benefits for those in poverty in the targeted countries. Our focus is on DFID's role and interests. We considered PIDG performance in this light, but we did not audit its operations, projects or results. The report examines:

- DFID's strategy and the role of PIDG (Part One)
- Governance and engagement (Part Two)
- Reporting to DFID on PIDG's performance (Part Three)

Findings

DFID's growth strategy

7 **DFID has brought together a wide range of evidence to inform its growth strategy.** It has clearly articulated the role of infrastructure in promoting economic growth, gaining commitment from its country teams, 79 per cent of whom said that they were seeking to address a lack of private infrastructure investment. However, gaps remain in the evidence for the links between infrastructure investment and poverty reduction. DFID recognises the need to learn from its use of PIDG to increase the impact of its infrastructure work (paragraphs 1.15 to 1.17, 2.34 to 2.35).

8 **We consider that DFID's decisions to invest in PIDG have sometimes been based on insufficient analysis and scrutiny.** Its 2011 business case for a rapid scale-up of funding was informed by its multilateral aid review, which stated that PIDG was 'very good value for money'. We have previously concluded that the review is a much improved basis for allocating funding. However, the business case did not explain the reasons why it was appropriate to allocate £700 million between March 2012 and March 2015, or how funding should be allocated across facilities. It was also informed by the 2011 PIDG governance review but did not make governance reforms a condition of funding. Because it considered that its analysis in the multilateral aid review had been sufficiently scrutinised, DFID decided not to ask its quality assurance unit to assess its business cases for investments in multilateral bodies. This was despite the experimental nature of PIDG and the risks involved in its investments (paragraphs 1.24 to 1.26).

9 DFID wants PIDG to remain a multilateral body, with other donors closely engaged in its governance and operation. But DFID's rapid increase in funding could affect the relationship between PIDG and other donors. DFID contributed 88 per cent of PIDG funding from 2012 to 2013 inclusive and recognises that PIDG is still evolving. DFID's relationship with PIDG is therefore different from that which it has with other multilateral bodies. Its increased funding could produce an imbalance between the control of PIDG, shared equally between donors, and the risks to the UK. This could affect relationships with other donors, who already contribute fewer staff and financial resources. DFID told us that PIDG's governing council has considered the situation in detail, with other donors concluding that they were content that DFID continue to provide substantial funding (paragraphs 1.27 to 1.30).

10 The PIDG projects we reviewed will provide benefits – often for many people and in difficult environments. Projects are also likely to have unrecognised positive impacts. For instance, researchers from the Overseas Development Institute assessed that a PIDG-funded power plant in Uganda would create up to 11,500 jobs. Community and government representatives in recipient countries were largely positive about PIDG's innovative approach and the abilities and engagement of its employees (paragraphs 1.10 to 1.14, 3.17, Appendix Three).

Governance and engagement

11 DFID has increased its resources for overseeing PIDG and wields more influence than other donors. DFID's team has grown in three years (from 1.4 full-time equivalent employees to 4.7). DFID provides more challenge than most donors, and its central team engages well at governing council level (paragraphs 2.25 to 2.33).

12 DFID has worked to improve PIDG's governance and strategic thinking, but some of its processes have not evolved sufficiently rapidly to keep pace with its increased scale. PIDG has undertaken a programme of reforms and, encouraged by DFID, plans to commission a wide-ranging governance review in 2014. It has improved communications, established a chair's office, adopted a new code of conduct and operating procedures, and brought more financial expertise into its programme management unit. PIDG plans to introduce a live high-level risk assessment covering all board activities and wider developments, but this has not yet been implemented. PIDG's current governance model relies heavily on the commitment and capacity of non-executive board members. We found that they have a good mix of relevant skills, although their focus is more on financial than developmental impacts. As non-executives, they are only employed for up to 30 days a year, but, as PIDG grows, they have taken on executive functions. Some boards have responded by appointing executive management support (paragraphs 2.2 to 2.18).

13 **We consider that DFID has not ensured sufficient monitoring and transparency of PIDG administrative costs, although recent developments should strengthen PIDG's processes.** PIDG's travel policy allowed fully flexible business class fares for flights of more than four hours. Under this policy, some board members made large expense claims, for instance 15 flights booked since 2011 for more than £5,000 each. DFID told us that it has been working to tighten travel policies across multilateral organisations it supports, in line with the government's increased emphasis on controlling spending. PIDG is now improving spending procedures in key areas, informed by work commissioned after possible irregularities in administrative costs were missed for several years. In July 2014, it introduced a new travel policy excluding fully flexible business class fares. PIDG has not regularly published or monitored its total administrative and operational costs, which we estimate were £23.8 million in 2012, representing 2.8 per cent of funds available to invest (paragraphs 2.19 to 2.23, 3.30 to 3.32).

14 **DFID has not yet achieved effective communication and coordination between PIDG and DFID's country teams.** PIDG represents a large, high-profile and innovative investment for DFID in a policy area it is targeting. We saw some examples of the benefits of liaison, but several DFID country teams were concerned about a lack of coordination between their activities and PIDG. They were sometimes unaware of important project developments, potentially putting DFID's reputation at risk and meaning missed opportunities for cooperation. DFID plans to improve liaison between its country teams and multilateral bodies, focusing on the biggest and riskiest decisions (paragraphs 2.34 to 2.38).

PIDG's performance reporting to DFID

15 **PIDG reporting is transparent and wide-ranging, and it claims significant developmental impacts, although evaluation and external assurance are limited.** PIDG reports that nearly 185 million people will have new or better services because of its projects to date, and 214,000 people will have long-term employment. PIDG has sought to improve its comparatively advanced reporting of hard-to-measure impacts, working with other development finance institutions. It also has a schedule of periodic independent facility reviews, and had conducted 12 by the end of 2013. However, despite its experimental nature, PIDG has so far commissioned only one detailed project evaluation, and one independent evaluation of a facility. PIDG's quality assurance and verification system relies on data provided by projects, with limited external assurance. PIDG donors agreed in June 2014 to consider scaling up monitoring and evaluation, and committed US$250,000 to the evaluation of employment impacts (paragraphs 3.2 to 3.8).

16 DFID has encouraged improvements to performance reporting, but given PIDG's multilateral status, it relies on PIDG's own performance assessments. DFID has encouraged PIDG to be innovative in reporting its development performance, and it publishes a wider range of impacts than several more-established multilateral bodies. However, although we saw some evidence of challenge, DFID largely accepts PIDG performance estimates as accurate, using them in business cases and annual reports. The limitations in PIDG's reporting and quality assurance create the risk that DFID understates or overstates the achievements arising from its funding (paragraphs 3.9 to 3.11).

17 PIDG's estimated total impacts rely on a few projects, raising risks for DFID that are not systematically assessed. One project alone accounts for 50 million people projected to receive new services (45 per cent of the total claim), but PIDG is a small contributor and the project is facing difficulties. Support for another company accounts for 75 per cent of all expected long-term jobs created. It is unsurprising that project effects vary in size, particularly where projects may be transformational, but it raises risks to PIDG's overall expected impacts. We saw little evidence that PIDG and DFID were considering the risks to expected development impacts on a portfolio basis (paragraph 3.12 to 3.13).

18 DFID has encouraged PIDG to set targets for investment in low income and fragile states and for project numbers. PIDG reports mixed success in achieving them. PIDG exceeded two of its three key performance targets set in 2011, missing one for investment in poor countries. Three of the main DFID-funded facilities missed their latest targets for agreeing deals; and PIDG has pushed back milestones in response. PIDG has identified potential projects for DFID's new initiatives, but experience suggests projections may be over-optimistic (paragraphs 3.22 to 3.28).

19 DFID paid some money into the PIDG Trust well before funds were paid out to facilities, because of over-optimistic expectations. Between January 2012 and February 2014, an average of nearly £27 million of DFID funding remained in the Trust. Depending on assumptions about alternative uses for this money, the opportunity cost to the UK taxpayer was between £0.2 million and £2 million. One DFID payment, of £6.5 million, was in the Trust between December 2011 and April 2014. DFID kept its holdings under review but was too optimistic about when the funds could be used. It explains the delays as due to difficulties in agreeing changes to PIDG's operating model and establishing new initiatives. DFID has encouraged PIDG to develop a central Treasury Policy by July 2014, and has agreed to use promissory notes for some future payments. Following actions by DFID and PIDG, the balance of DFID funding in the PIDG Trust fell to £5.9 million at the end of May 2014 (paragraphs 3.33 to 3.36).

Conclusion on value for money

20 DFID's investment in PIDG is a key plank in its strategy to encourage private sector development in poor countries, helping to mobilise private investment and provide vital infrastructure. While gaps in the evidence remain, the use of commercial expertise to support private infrastructure investment aligns with DFID's evolving strategy. Many PIDG projects look likely to achieve both good development impacts and financial returns, often in difficult environments.

21 DFID has successfully encouraged PIDG to improve its targeting of investments and performance reporting. But its oversight of PIDG has overall been insufficient to ensure value for money from its substantially increased funding. PIDG is providing important benefits to poor people, but DFID lacks sufficiently robust information to demonstrate that investment in PIDG is the best option. DFID's financial control has also been lacking, allowing the PIDG Trust to hold DFID funding averaging nearly £27 million since 2012. DFID has recently made good progress in tackling these issues, which will put it in a better position to achieve value for money. But we consider that it should have taken more action earlier given its decision in 2011 to increase funding for PIDG fivefold.

Recommendations

22 DFID should:

a **Improve how it critically reviews its funding of the activities of multilateral bodies such as PIDG, only releasing funds once there is a clear need for the money and the capacity to make good use of it.** This will enable it to compare PIDG with other options and avoid large unused cash balances.

b **Do more to hold PIDG to account at governing council meetings and other engagements.** DFID is responsible for large sums of UK taxpayers' money invested through PIDG. It needs to ensure that it and other donors have the information and capacity to ensure this is spent wisely, for instance by improving central oversight mechanisms, increasing analysis of development impacts and providing greater challenge of the data it receives.

c **Promote closer liaison between its country teams, other parts of HM government and PIDG facilities, and increase awareness of its support for PIDG in recipient countries.** This will help to tackle problems with projects before they become intractable, and to promote the UK's role in supporting private infrastructure development. DFID should ensure that its country office programmes complement and collaborate with the riskiest activities of multilateral bodies where possible.

23 Using its position as the largest PIDG donor, DFID should:

a **Ensure the governance review planned for 2014 assesses PIDG's procedures independently and comprehensively**, particularly the capacity of boards to handle increasing workloads. This should include a review of how to ensure value for money from the management of the PIDG Trust.

b **Promote greater scrutiny of key risks by the donors' governing council.** This should include assessment of development performance, project pipelines and financial controls. A more structured approach to risk and long-term planning would help donors to engage effectively with strategic issues.

c **Support rigorous independent evaluations of facilities and projects**, and of the case for infrastructure investment, ensuring that their lessons are widely disseminated. This could help to demonstrate the developmental and commercial effectiveness of PIDG's work to other donors and investors.

d **Encourage an in-depth assessment of PIDG's quality assurance and verification processes**, including their systems for external validation.

24 Given the importance of these issues, we expect DFID to have a clear plan for addressing them before taking further strategic decisions on PIDG. If it decides to invest further in PIDG after 2014-15, it should make funding conditional on governing council agreement to substantial strengthening of PIDG's governance.

Part One

DFID's strategy and the role of PIDG

1.1 This report examines whether the Department for International Development's (DFID) interests in, and oversight of, the Private Infrastructure Development Group (PIDG) deliver value for money and secure benefits for those in poverty. Our focus is on DFID's involvement with PIDG, rather than PIDG and its facilities. We did not audit PIDG's operations, projects or results. Given PIDG's innovative approach, there are lessons for initiatives to promote domestic growth such as the British Business Bank and the Green Investment Bank.

1.2 We considered DFID's investment in PIDG against evaluative criteria summarised in Appendix One. These form the basis for the structure of our report:

- Part One assesses the strategic case for DFID's investment;
- Part Two assesses DFID's engagement with PIDG and its governance structure; and
- Part Three assesses PIDG's performance reporting to DFID.

1.3 Appendix Two provides more details of our approach. An online Appendix Three describes our country visits and project assessments.

DFID has increased its focus on supporting economic development

1.4 DFID leads the UK's effort to eradicate global poverty. Since 2010, it has focused on boosting economic development to reduce aid dependency. It considers that although growth in poor countries has increased, it remains far below levels needed to lift them out of poverty. The Secretary of State recently stated that: "Growth reduces poverty through jobs… raising incomes for individuals through the dignity of work and providing tax receipts for governments to fund basic public services like health and education."[1]

1 Department for International Development, *Smart aid: why it's all about jobs*, speech by Secretary of State, 2014.

1.5 In January 2014, DFID produced its strategic framework for economic development,[2] with the aims of:

- improving international rules for shared prosperity;
- supporting the enabling environment for private sector growth;
- catalysing capital flows and trade in markets where it is hardest to raise investment;
- engaging with businesses to help their investments contribute to development; and
- ensuring growth is inclusive, and benefits girls and women.

1.6 To deliver this framework, DFID told us that it plans to double spending on economic development to £1.8 billion between 2012-13 and 2015-16, subject to there being enough proposals providing value for money.

1.7 DFID considers that trade and investment contribute to economic development by raising productivity, creating jobs and boosting incomes. Inadequate infrastructure, shallow financial sectors and weak capital markets present major barriers. DFID is using several mechanisms to increase private investment, develop financial sectors and, most significantly for this report, improve infrastructure that it considers is critical for growth. In particular, DFID identifies a need for substantial infrastructure investment in developing countries which cannot be met by public funding and aid alone. It therefore aims to increase private investment from both international and domestic investors. It describes PIDG as its most important vehicle in supporting this aim.

PIDG uses an innovative approach to stimulate investment in infrastructure

1.8 PIDG is a multilateral organisation founded by four donors including DFID in 2002 and governed by development agencies from eight countries and the World Bank Group.[3] It aims to mobilise private investment in infrastructure projects in developing countries to boost growth and combat poverty.

1.9 PIDG was founded on the basis that, while private sector support is needed, the private sector will not invest without expert and reliable encouragement and support, because of multiple market and government failures. PIDG aims to demonstrate that private investment in low- and middle-income countries is commercially viable and can provide benefits to those who lack access to basic services such as power, transport, water and communication.

2 Department for International Development, *Economic development for shared prosperity and poverty reduction: a strategic framework*, January 2014.

3 The eight countries are Australia, Austria, Germany, Ireland, the Netherlands, Sweden, Switzerland and the UK. The World Bank is currently represented by the International Finance Corporation (IFC).

1.10 PIDG donors ('members') commit funds which are invested through investment vehicles ('facilities'). These mobilise flows of capital and expertise for investment in infrastructure. PIDG currently operates through seven facilities, each providing a range of services and financial instruments. Each facility deals with different types of market failure at key project stages (**Figure 1**). **Figure 2** summarises PIDG's structure and **Figure 3** on page 16 describes an example PIDG project.

1.11 PIDG fits into a wider landscape of support for infrastructure by development finance institutions, including international bodies such as IFC (part of the World Bank Group), the Asian and African Development Banks, and national organisations such as FMO (the Dutch development bank) and CDC (a DFID-owned development finance institution).

Figure 1
PIDG's operational facilities address different stages of the project cycle

Stage	Facility	Role	Example project	Selected expected benefits reported by PIDG for this project
Development	InfraCo Africa	Develops infrastructure projects in sub-Saharan Africa	Ghana: US$11 million equity investment to develop a 340 megawatt gas-fired power generation plant	Nine million people receiving better services and 1.5 million people receiving new services
Development	InfraCo Asia	Develops infrastructure projects in Asia	Cambodia: US$2.4 million development cost and equity investment to help develop a 120-hectare salt farm	350 long-term and 250 short-term jobs created
Support	DevCo	Supports transaction advisory services to governments for projects with private participation	India: US$250,000 grant to help prepare a public-private partnership to upgrade urban street lighting	168,000 people receiving better services
Support	Technical Assistance Facility (TAF)	Provides grants for technical assistance or subsidies to support PIDG projects	Uganda: US$3 million grant to facilitate a solid waste management public–private partnership	Supporting a DevCo project expected to result in 800,000 people receiving new services and 500,000 receiving better services
Financing	Emerging Africa Infrastructure Fund (EAIF)	Provides long-term foreign currency loans to projects in sub-Saharan Africa	Rwanda: US$25 million loan to support methane extraction and production facility on Lake Kivu	2.5 million people receiving better services
Financing	GuarantCo	Provides local-currency guarantees to projects	India: US$20 million guarantee to help a vehicle financier to provide loans to small businesses	22,400 people receiving new services

Notes

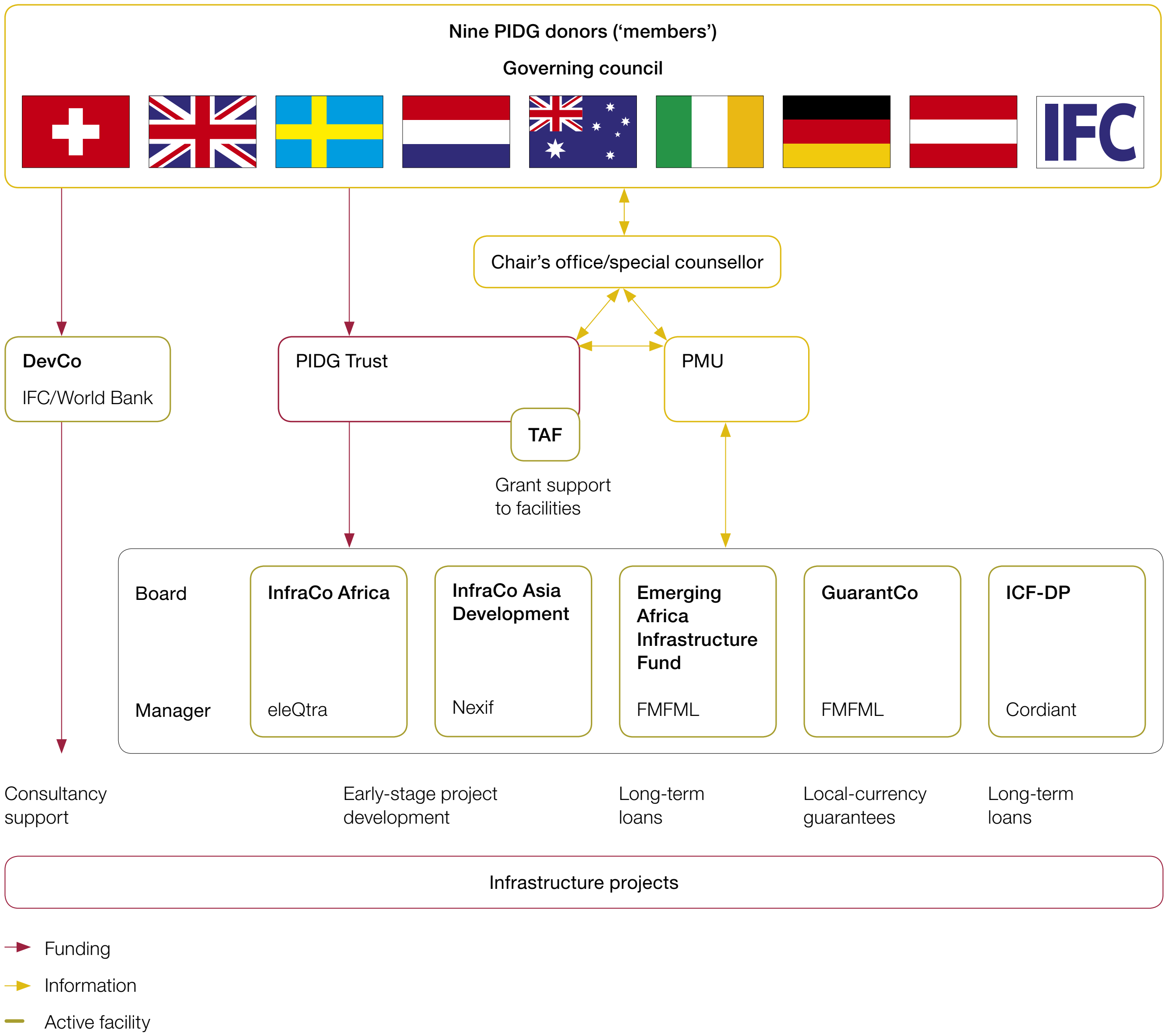
1 Excludes ICF-DP, which DFID does not currently fund; Green Africa Power, a new facility which will invest in renewable energy projects in Africa; and InfraCo Asia Investments, which will provide follow-on investment in InfraCo Asia Development's projects.

2 Appendix Three provides further examples.

Source: National Audit Office analysis

Figure 2

PIDG's structure comprises several organisations acting together



Notes

1 **PIDG governing council** – nine members who are governmental or publicly funded bodies. Responsible for strategic direction and monitoring development impacts and value for money of PIDG.

2 **Chair's office** represents donors' strategic interests, with the chair rotating annually (UK from November 2013). Supported by a special counsellor since 2013.

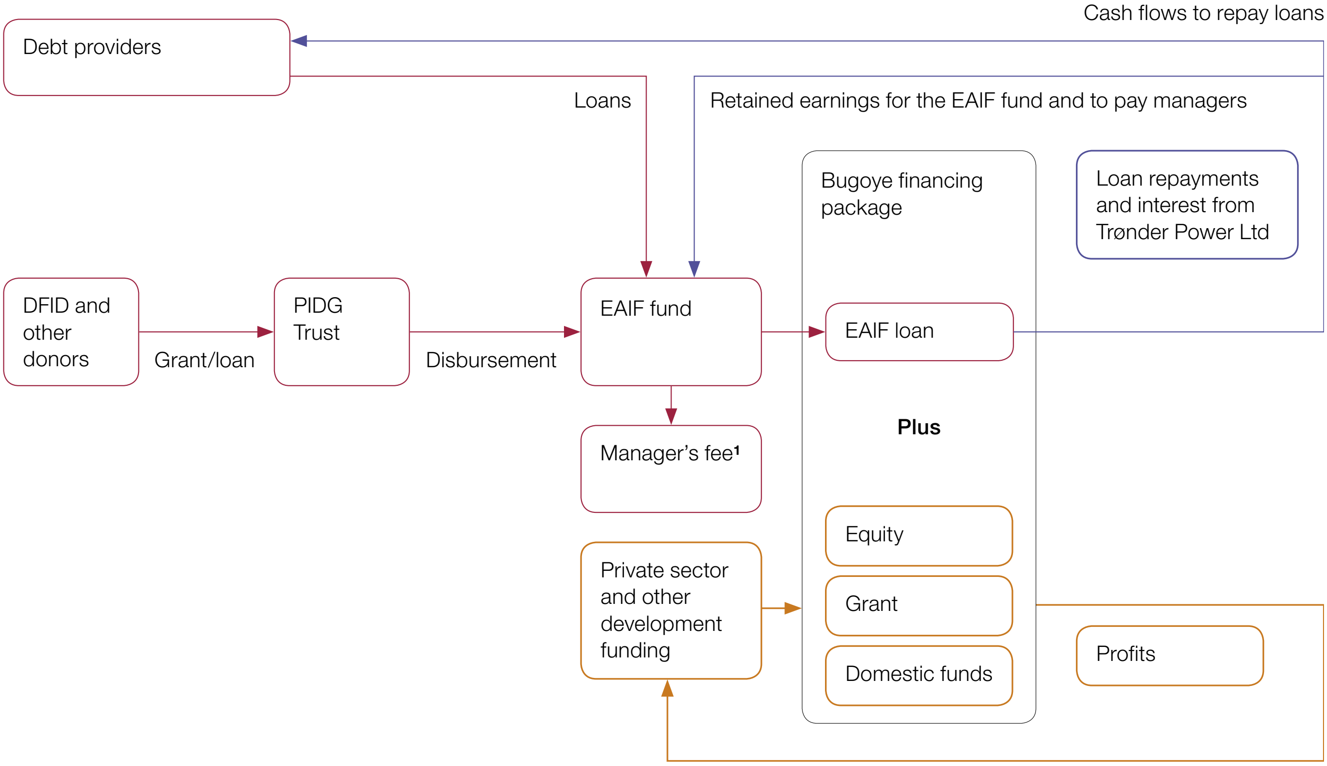
3 **Programme management unit (PMU)** – a secretariat, oversight body and governance and reporting co-ordinator. Aims to ensure that PIDG functions effectively, and promotes and protects its reputation. MDY Legal has held the role since 2005.

4 **PIDG Trust** – the Trust is run by SG Hambros to move funds between donors and facilities and act as shareholder of the PIDG companies. It acts on behalf of the governing council. A separate trust is run out of the World Bank for the Infrastructure Development Collaboration Fund (DevCo).

5 **PIDG facilities** – all investment facilities (the InfraCo facilities, GuarantCo and Emerging Africa Infrastructure Fund) have donor-appointed **boards**, responsible for delivering PIDG's strategy. They contract out day-to-day operations to **third-party managers**.

Source: National Audit Office diagram based on PIDG publications

Figure 3
An example PIDG project – Bugoye



In 2008, the Emerging Africa Infrastructure Fund (EAIF) approved a 15-year loan to a project to build a run-of-river hydro project in Bugoye, western Uganda. The Norwegian firm Trønder Power constructed the plant, which became operational in 2009. It can supply up to 13 megawatts of power, contributing to national household and business supply. Alongside the project, Trønder Power provided community benefits to residents including supporting a health clinic. PIDG expects the project to provide improved services to nearly one million people. An independent evaluation identified that it could create up to 11,500 jobs at full capacity.

EAIF lent US$32 million to the project sponsor, alongside US$20 million equity contributions and a US$9 million Norwegian government grant. EAIF is paid interest under the loan agreement, while equity holders, including NorFund, the Norwegian development agency, receive residual profits. The loan repayments and interest help to grow EAIF's fund and pay the manager, FMFML.

Notes

1 The manager (FMFML) receives an annual fixed fee plus a fee based on (i) portfolio growth and (ii) a profit sharing element.

2 Further information is in Appendix Three.

Source: National Audit Office analysis

1.12 DFID and other stakeholders were largely positive about PIDG's approach and the abilities and engagement of its managers. They consider that PIDG is innovative and unique in its:

- focus on infrastructure – in 2009, the African Development Bank was the only other multilateral development finance institution with more than half of its projects in infrastructure;[4]
- focus on lower-income states and fragile and conflict-affected states, providing a way of reaching the countries whose needs are greatest;
- range of different investment approaches, enabling donors to choose which to invest in and how much; and
- recruitment of private sector expertise to its boards and use of managers specialising in financing and developing infrastructure projects.

1.13 PIDG has grown rapidly in recent years. By the end of 2013, PIDG members had paid £590 million to support projects, with £177 million paid during 2013 (three times the 2011 level). In March 2014, PIDG listed 146 projects as having financial commitments,[5] 106 as having reached financial close[6] and 35 as fully operational. It expected financially closed projects to provide new or improved access to infrastructure to nearly 185 million people, and estimated that its operational projects benefit 98 million people.

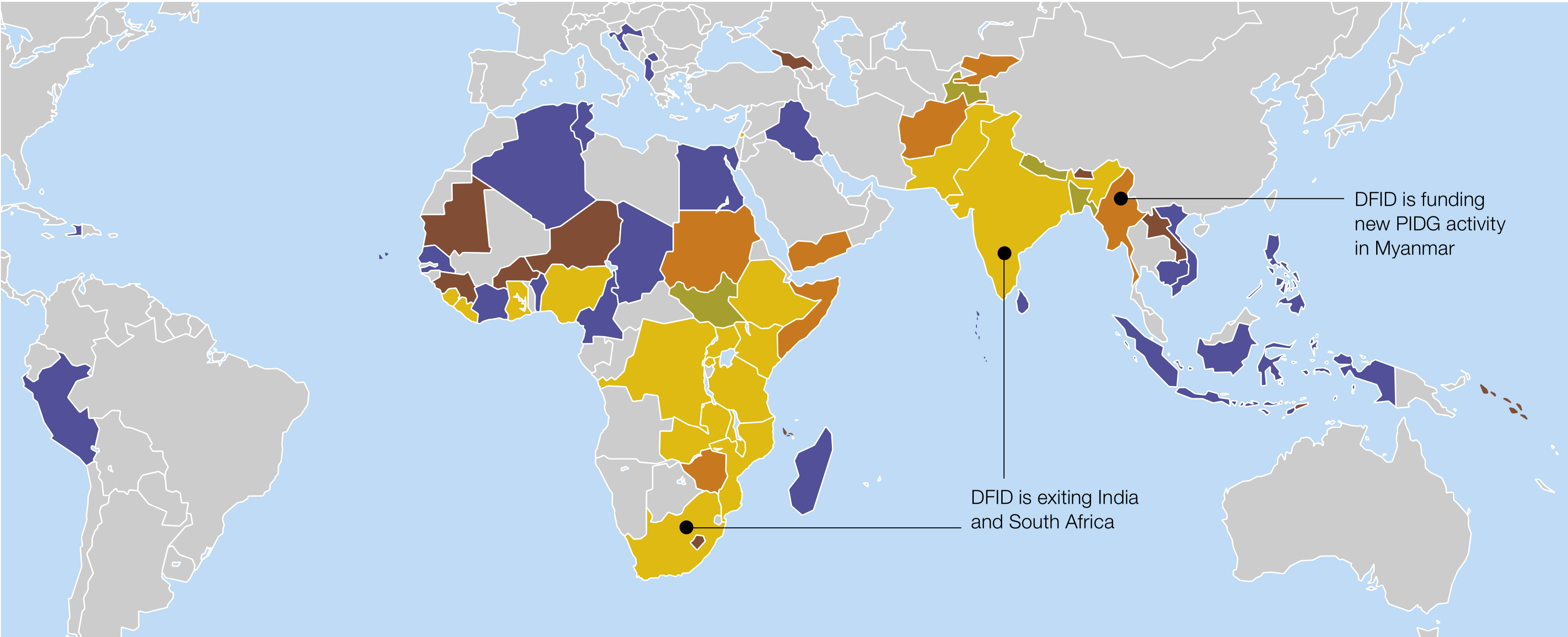
1.14 The overlap between DFID's priority countries and those in which PIDG operates is reasonable; PIDG works in 21 of DFID's 28 priority countries and will soon work in another, Myanmar (**Figure 4** overleaf). Sixty-three per cent of PIDG's closed projects and 62 per cent of its commitments are in DFID's priority countries.

DFID has brought together a wide range of evidence to inform its growth strategy

1.15 The experts we interviewed agreed that DFID has worked hard to develop the evidence for its growth strategy, and that there is strong support for its claim that inadequate infrastructure is an important constraint on growth in the developing world. For instance, in 2010 the World Bank estimated that infrastructure investment in Africa fell short of the required level by US$31 billion each year, leading to inadequate basic services such as water, sanitation and energy.[7] We also found widespread acceptance that economic development is a prerequisite for reducing poverty.

4 Overseas Development Institute, *Comparing Development Finance Institutions – Literature Review*, January 2011.
5 A formal facility commitment to support a project.
6 This includes projects that are co-financed by multiple facilities. There are 99 discrete closed projects. Financial close occurs when all investors have signed a loan or guarantee agreement to support project completion; or an InfraCo has agreed to sell some or all of its equity rights to an investor; or DevCo has awarded a contract to private investors. In April 2014 PMU reclassified two further ICF-DP projects as closed.
7 Agence Française de Développement and the World Bank, *Africa's Infrastructure: A Time for Transformation*, 2010.

Figure 4
PIDG's geographic spread and DFID's priority countries



Note

1 DFID's list of priority countries has changed since PIDG was established, most recently in 2010 when the number of priority countries was reduced to 28.

Source: National Audit Office analysis

1.16 However, experts inside and outside DFID acknowledged gaps in the evidence for how infrastructure affects poverty, or how public-private partnerships support growth through infrastructure. There is more evidence on problems than solutions and less evidence on the causes, context and mechanisms that might inform how best to intervene.

1.17 These gaps make it important to learn lessons from DFID's support for PIDG, to gain more impact from its infrastructure work. DFID told us that it is increasing investment in evaluation, and that key PIDG developments are circulated to senior staff.

DFID's involvement with PIDG has developed over more than a decade

1.18 In the early 2000s, DFID concluded that public funding would be insufficient to fill the gap between the investment needed in infrastructure and what the private sector would invest on its own. DFID agreed with government development agencies in Switzerland, Sweden and the Netherlands to establish PIDG as a multilateral organisation. DFID contributed initial funding of US$56 million in 2002. In its early years, PIDG remained relatively small, growing gradually as six new facilities were added and donors joined.

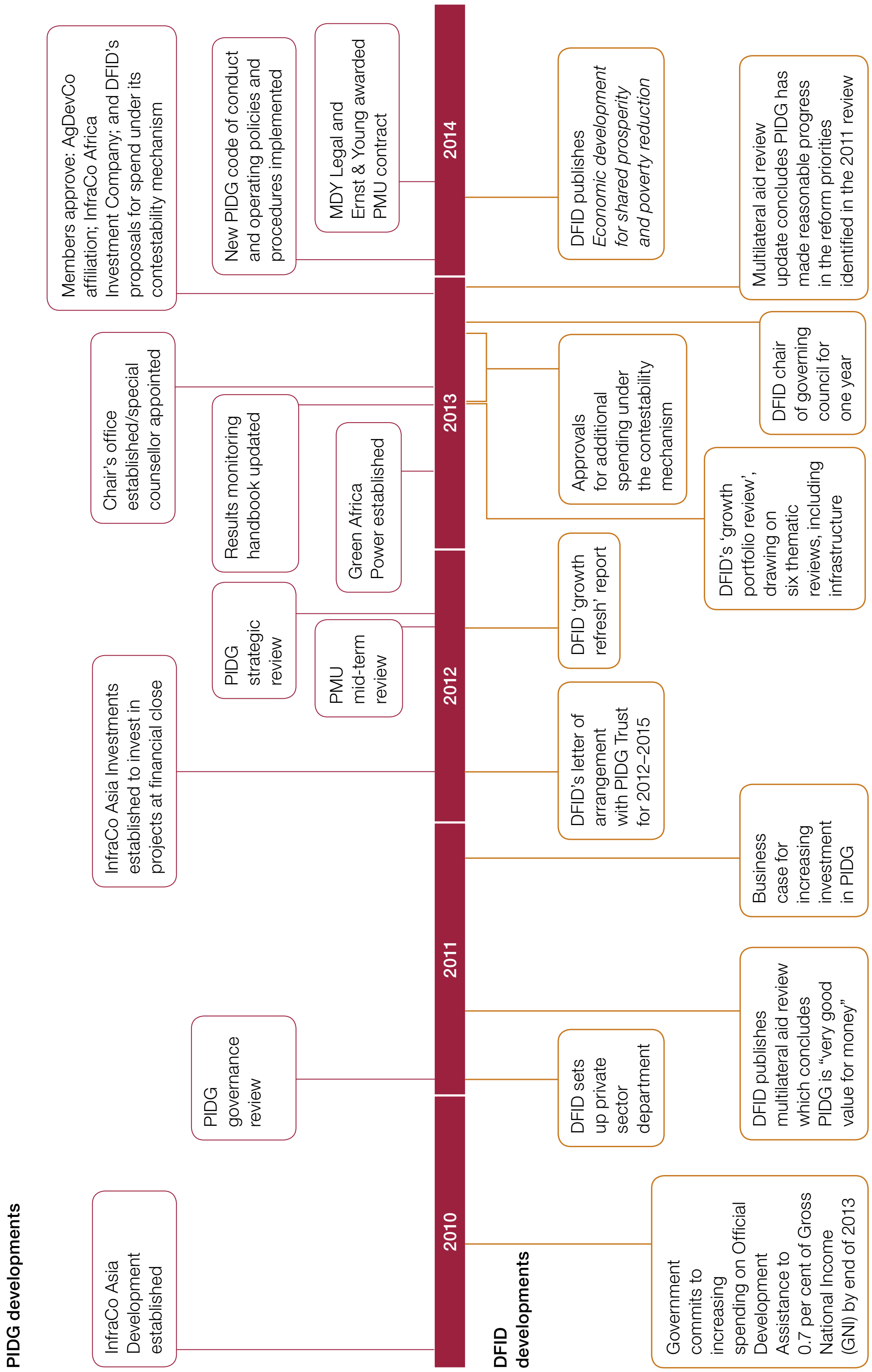
1.19 Since 2010, there have been significant developments in PIDG's funding and management (**Figure 5** overleaf). In 2011, DFID decided to increase its funding substantially following its multilateral aid review.[8] This assessed PIDG's organisational strength and contribution to UK development objectives, and concluded that PIDG was 'very good value for money'. Our assessment of the multilateral aid review concluded that it provided a much-improved basis for deciding how to allocate funding between multilateral bodies.[9]

1.20 DFID's 2011 business case for PIDG proposed £477 million of investment in PIDG between March 2012 and March 2015. It made a further £223 million available under a performance-based contestability mechanism. DFID's payments to PIDG count towards its annual targets for Official Development Assistance, although the money may not be spent for some time.

1.21 DFID has used the contestability mechanism to commit £120 million to new initiatives of existing facilities, and to reduce payments to GuarantCo by £2 million for 2014-15, due to its failure to achieve targets. It has also committed £73 million to a new facility, Green Africa Power, and £50 million to an affiliated facility, AgDevCo.

8 Department for International Development, *Multilateral Aid Review*, March 2011.
9 Comptroller and Auditor General, *The multilateral aid review*, Session 2012-13, HC 594, National Audit Office, September 2012.

Figure 5
Developments have accelerated since 2010



Source: National Audit Office analysis

1.22 Historically, DFID invested in PIDG through capital grants, reflecting its expectation that DFID would not receive financial returns from facilities. At a time of targets set by HM Treasury to reduce fiscal spending, DFID has been reviewing since September 2013 how to restructure future investments as "returnable capital". In October 2013, it provided £50 million to EAIF and, following a loan agreement signed on 31 March 2014, recorded a related asset on its balance sheet with a value of £10 million. In our audit of DFID's 2013-14 financial statements, we have recommended further work is required to clarify the nature and value of such payments to PIDG before they can be classified as assets.

1.23 DFID has not committed further funding to PIDG beyond March 2015. In January 2014, DFID said in its economic development framework that: "In line with our objectives, we propose to scale up our funding for PIDG significantly".[10] In June 2014, it told us that ministers were considering a wide range of options from no further capital funding to a significant scale-up. DFID intends to take account of developments in PIDG's governance and market needs as it develops a business case for funding.

DFID's decisions to invest in PIDG have sometimes been based on insufficient analysis and scrutiny

1.24 DFID has devoted substantial effort to developing its processes for appraising projects. It requires ministerial approval for all business cases for spending more than £5 million, while all business cases for spending more than £40 million are assessed by DFID's quality assurance unit. For example, DFID's recent decision to fund **Green Africa Power**, a new PIDG facility, was subject to full business case scrutiny. The business case included detailed assessment of alternatives and expected impacts and was rated positively by the quality assurance unit.

1.25 DFID's most important recent decision was based on its **2011 business case for increased investment in PIDG**. This broadly followed HM Treasury's business case guidance, but it did not explain why it was appropriate to allocate up to £700 million between March 2012 and March 2015, or how funding should be allocated across facilities. It was also informed by the 2011 PIDG governance review but did not make governance reforms a condition of funding. Because DFID considered that its previous analysis had been sufficiently scrutinised during the multilateral aid review, it decided not to ask its quality assurance unit to assess its business cases for investments in multilateral bodies. While DFID had funded PIDG for nine years, its decision not to use the quality assurance unit was taken despite PIDG's continuing experimental nature and the risks involved in its investments.

10 See footnote 2.

1.26 DFID's quality assurance unit has also not reviewed funds routed through PIDG from the £223 million performance-based **contestability mechanism**, because approval for the original PIDG business case included approval for all contestability mechanism spending. For these bids, directors have delegated authority to approve spending, although officials have informed the Secretary of State of their decisions. We are concerned that scrutiny of risky and innovative spending could be inadequate and inconsistent for the £120 million approved to date. For example, in 2013 DFID decided to invest £66.5 million in a new Frontier Africa Investment Resource within EAIF, after assessing that EAIF had exceeded its targets. The decision was based primarily on analysis from the fund manager, supplemented by options analysis by DFID. It did not include a 'do nothing' option or explain expected impacts in detail.

DFID's increased funding could affect its relations with PIDG

1.27 DFID is the largest contributor to each of the facilities, except ICF-DP. By December 2013, DFID's total funding of £414 million represented 70 per cent of all contributions to date (**Figure 6**). In the last two years, DFID provided 88 per cent of in-year contributions to PIDG. Only two other members (Australia and Switzerland) are currently adding new funding to PIDG, although all members contribute to central costs.

1.28 DFID told us that it saw substantial benefits from PIDG being a multilateral body, including:

- providing a credible alternative to existing multilateral organisations which have less focus on fragile and conflict-affected states;
- ensuring its sustainability, by not being entirely reliant on one country;
- helping to improve interactions with other donors and recipient countries; and
- assuring recipients that funding is independent of a particular national government.

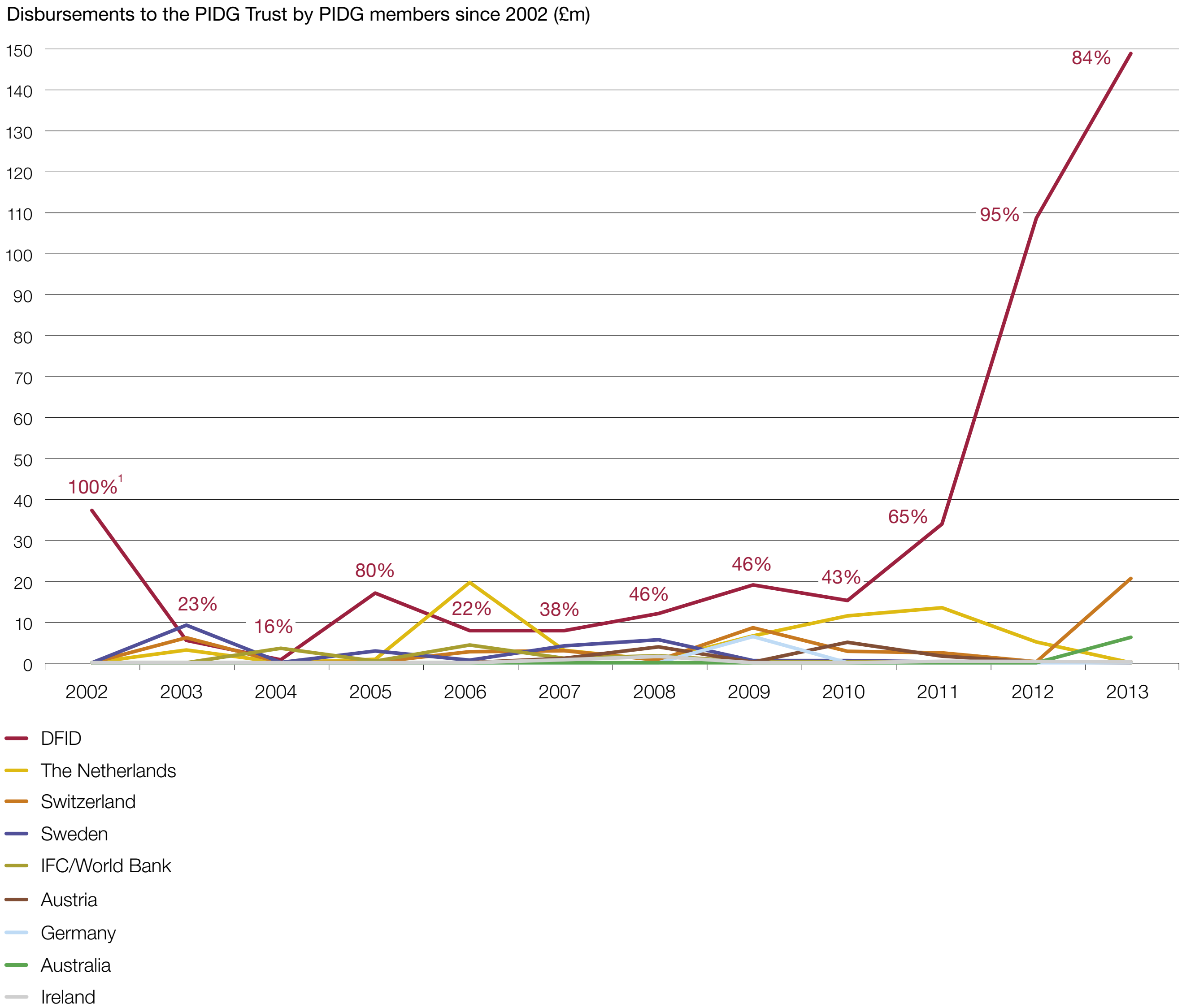
1.29 For the 16 projects we reviewed during our country visits, we did not find evidence of such benefits, but DFID subsequently provided evidence demonstrating benefits for some other projects.

1.30 Since PIDG is still evolving, and DFID contributes the majority of PIDG funding, its relationship with PIDG is different from that which it has with other multilateral bodies. The extent of DFID's recent funding could produce an imbalance between the control of PIDG, shared equally between donors, and the risks to the UK. Of the five donors which responded to our questions, three were positive about DFID's level of funding, but two raised some concerns. One donor felt that if DFID sought greater influence from continued large-scale funding, it might have to reconsider its position. DFID told us that PIDG's governing council has considered the situation in detail, with other donors concluding that they were content that DFID continue to provide substantial funding.

Figure 6

DFID's disbursements to the PIDG Trust exceed those of other donors

DFID has increased its funding from a total of £49 million in 2010 and 2011 to £258 million in 2012 and 2013



Note

1 The percentages represent DFID's share of the in-year funding for PIDG.

Source: National Audit Office analysis of PIDG data

Part Two

Governance and engagement

2.1 In this Part, we examine whether the governance and oversight of the Private Infrastructure Development Group (PIDG) are capable of protecting the Department for International Development's (DFID's) interests, and whether DFID engages sufficiently with PIDG's work.

DFID has secured improvements to PIDG's governance, but weaknesses remain

Recent developments

2.2 PIDG's governance has evolved substantially in recent years, encouraged by DFID and in response to three reviews:

- PIDG's 2011 **governance review** sought the right balance between empowerment and a 'bureaucracy-light' PIDG. Its recommendations included a clearer and more strategic role for the programme management unit (PMU), better reporting by facilities and the introduction of a centralised code of conduct.
- McKinsey's 2012 **strategic review** was commissioned by PIDG at the request of members, particularly DFID. It acknowledged that "by design, members have limited line of sight and direct control over facilities' operations". It suggested that PIDG's growth was beginning to strain its "common culture" and shared vision, but was concerned to avoid bureaucracy. The review recommended measures to increase communication across the organisation, including regular strategy planning sessions, and formalised responsibility for PIDG-wide strategic planning.
- PIDG's 2012 **review of the PMU** recommended that it should be retendered, which happened in 2013. It also suggested unbundling responsibilities to reduce conflicts of interest.

2.3 PIDG plans to commission a wide-ranging governance review in 2014. It has implemented many of the past reviews' recommendations, although sometimes later than it initially planned. For instance, PIDG has appointed a special counsellor to support the chair. It agreed a new code of conduct and operating polices and procedures from 2014 and held sessions on strategic topics at governing council meetings. In 2001, services to the PIDG Trust were tendered competitively, but the costs of the Trust have not been benchmarked since, creating a risk that the current administrator has not felt sufficient competitive tension; donors agreed to market testing in June 2014. Donors decided not to unbundle PMU's role but instead to manage the conflicts of interest.

Assessment

2.4 We examined both PIDG's formal governance processes and how they are applied, to assess whether PIDG's governance is strong enough to protect the value for money of DFID's investments. We looked at the:

- governing council and chair's office;
- programme management unit; and
- boards of PIDG facilities.

Governing council and chair's office

2.5 PIDG's governing council comprises representatives of the nine PIDG donors, each of which has an equal vote and the right of veto on key decisions. The council seeks to operate by consensus. It meets twice yearly to assess the performance of PIDG's facilities and to set its strategy. The chair's office supports the council. The role of chair rotates among donors, and is reliant upon the commitment and expertise of the donor representative. Recently, the chair's role has become a more strategic position, supported by a special counsellor and two experienced advisers.

2.6 Our observation of the November 2013 governing council meeting found some evidence of challenge of PIDG boards, including presentation of the Trust accounts by its auditors for the first time. However, there was little discussion of overall development impacts or projects – projects are primarily discussed at quarterly donor meetings with facilities. Some donors told us that a lack of resource made it difficult for them to engage with the issues.

2.7 Much of the discussion at the November 2013 meeting focused on PIDG's strategy, in response to the 2012 strategic review. However, there is a lack of portfolio thinking at this level, which makes it difficult to exploit synergies between PIDG facilities, or to articulate a longer-term vision for PIDG.

2.8 Risk management is evolving, although it has weaknesses at a strategic level. PIDG has a lines of defence framework to encourage identification and rectification of compliance failure within the operating policies and procedures. PMU includes a one-page summary of facility risks in its executive director's report to donors, providing an overview of the most immediate issues. PMU has also implemented quarterly risk reporting by facilities, and PIDG plans to introduce a live high-level risk assessment covering all board activities and wider developments, but this has not yet been implemented.

Programme management unit (PMU)

2.9 The PMU plays several roles in PIDG, including providing reports to donors alongside those from facilities, to help donors to identify and interpret key points. The PMU team comprises seven full-time equivalent employees from MDY Legal in partnership with Ernst & Young. It contains a blend of legal, financial and development skills, following a change in the terms of reference to require greater financial focus. This is a welcome development.

2.10 We found that PMU provides strong secretariat support to DFID and other donors, with frequent and clear papers setting out key developments. However, PMU is mandated both to promote PIDG externally, and to report progress and secure independent assessment of its impacts. The 2012 review of PMU noted that PMU's executive director's role in monitoring PIDG's performance could place them in a "situation of conflicted loyalty". It recommended separating the function from PMU, but donors decided against this.

Facility boards

2.11 Facility boards are very important in PIDG's day-to-day work. They play an executive as well as governance role, analysing and approving investment projects. We assessed the skills, challenge, risk management and approach to integrity issues of facility boards.

2.12 **Skills.** Board members have substantial experience across infrastructure, finance and public sector work (**Figure 7**) and their performance is subject to donor appraisal. However, the 2011 governance review identified a lack of diversity among board members: for instance, 80 per cent are male. Some chairs raised concerns about the skills of board members and the time they need to commit, given the increasing scale of investments and interactions within PIDG. As non-executives, they are only employed for up to 30 days a year, but, as PIDG grows, they have taken on executive functions. Some boards have responded by appointing executive management support.

2.13 **Challenge.** To assess the extent of challenge of project proposals, we examined the number of projects approved by board committees in EAIF and GuarantCo. About one-third of proposals approved by new business committees were converted to signed projects. Key decisions appear to be taken in credit committees – boards did not reject any projects that had been approved by credit committees.

Figure 7

Board members' skills and experience

	Board members	Academic	Financial	Infrastructure	Public/third sector
EAIF	Seven	All members have undergraduate degrees. Five have master's degrees and two have PhDs. Two have professional qualifications (accounting)	Seven members with average of 17 years' experience	Two members with average of 17 years' experience	Four members with average of 15 years' experience
GuarantCo	Seven	All members have undergraduate degrees. Four have master's degrees. Two have professional qualifications (banking)	Six members with average of 25 years' experience	Four members with average of 16 years' experience	Five members with average of 13 years' experience
InfraCo Africa	Seven	All members have undergraduate degrees. Five have master's degrees and four have PhDs. Three have professional qualifications (accounting)	Six members with average of 23 years' experience	Six members with average of 21 years' experience	Three members with average of 17 years' experience
InfraCo Asia	Seven	All members have undergraduate degrees. Two members have a master's degree and two have PhDs	Six members with average of 15 years' experience	Seven members with average of 22 years' experience	Three members with average of 19 years' experience

Source: National Audit Office analysis

2.14 We also observed board sub-committees and reviewed their minutes, finding that directors held informed and in-depth discussions with managers. They drew on previous examples and challenged underlying assumptions and claims. We identified three main gaps in boards' challenge:

- Board members rely on the knowledge of the managers they are holding to account. Boards rarely visit projects on the ground; the EAIF board has visited no projects since April 2013, GuarantCo's board visited one, InfraCo Africa board members visited three and InfraCo Asia board members visited four.
- Board discussions and papers focused on financial issues. There was little discussion of development impacts, which were largely taken as given.
- We consider managers sometimes played a more active role than we would expect, potentially impeding assessment of their performance. In some cases, managers were only present for project-level discussions and left when wider issues were discussed, but in others they played an active role in board-level matters, such as GuarantCo's treasury management.

2.15 Boards can incentivise good performance by their managers by changing performance payments or by bringing in other managers. Both InfraCo boards rejected their managers' most recent initial performance payment, instead approving payments that were 15 and 30 per cent lower.

2.16 Boards initially choose management companies through open competition. Rather than retender contracts with managers, PIDG has negotiated new contracts with some facilities. This sustains relations with supported projects and retains knowledge, but may be less effective than retendering in maintaining competitive pressure on established managers.

2.17 The InfraCo boards have agreed with PIDG donors that they will invite other developers to apply to provide services alongside current managers. Increasing the number of developers should increase competition and widen the pool of experience. To address potentially increased burdens, these boards have been hiring internal management teams for support.

2.18 Risk management. Since 2013, the facilities, encouraged by DFID, include a summary of main risks in their quarterly reports to PMU and donors. Board papers and discussions include in-depth assessment of specific risks. However, facility boards vary in their overall risk management practices and most do not maintain risk registers, although two were developing them.

2.19 We identified four important risks for DFID at facility level:

- GuarantCo manages around £124 million of donor funds to enable it to write guarantees for development, holding cash to back up the guarantees. It aims to invest this money cautiously to achieve stable positive returns. The performance of these investments may raise financial and reputational risks for DFID. For example, in 2013, after several years of profitable investment, it recorded a fair value loss of £1 million on an investment in a US bond markets fund.[11]
- Several PIDG projects involve investments in construction or heavy industry. Our visits identified instances where DFID could be exposed to reputational risks from poor health and safety practices. For example, many workers in a heavy industry plant failed to wear suitable protective clothing.
- PIDG's travel policy allowed fully flexible business class fares for flights of more than four hours. Under this policy, some board members made large expense claims – for example, 15 flights booked since January 2011 for more than £5,000 each. PIDG told us that some expenses are an inevitable consequence of boards' geographical diversity. DFID told us that it has been working to tighten travel policies across multilateral organisations it supports, in line with the government's increased emphasis on controlling spending. In September 2012, PIDG members advised directors to ensure they had their chair's permission to book fully flexible tickets. In July 2014, PIDG introduced a formal PIDG-wide travel policy prohibiting fully flexible tickets except in exceptional circumstances. While this is welcome, we found evidence of weak compliance with requirements; PIDG policy requires facilities to publish up-to-date expense claims online, but none had when we began our study.

11 Following negotiations, GuarantCo's March 2014 management accounts record a £383,000 loss on disposal of the asset.

- GuarantCo and EAIF are incorporated in Mauritius and subject to Mauritian tax rates, which raises reputational risks for DFID. DFID and PIDG consider the benefits include Mauritius' network of tax treaties in sub-Sarahan Africa, membership of the Southern African Development Community, its commitment to tax transparency and its strong financial regulation.

2.20 Integrity issues. In January 2014, PIDG introduced an updated code of conduct and operating procedures requiring members to declare conflicts of interest. Our analysis of board papers found that most meetings included a discussion of potential conflicts. These were usually addressed by the conflicted parties absenting themselves from decisions, although we did identify some exceptions.

2.21 There are potential structural conflicts arising within PIDG. For instance, MDY Legal, which manages the PMU, also provides corporate secretariat services to three facilities. While some chairs saw benefits from the shared understanding, others saw a conflict. PMU told us that any potential conflict arising is managed in accordance with PIDG policies and regulatory requirements.

2.22 Most significantly, PIDG needs to manage the risks of fraud and corruption in its approach, particularly because it works in difficult environments and sectors. In its business case, DFID recognised the main financial risks to its support depend on the strength of PIDG systems in preventing fraud and corruption. It stated that the multilateral aid review had assessed them as strong and that PIDG's routine auditing and reviews regularly checked adherence to policies.

2.23 However, PIDG has been slower than other development finance institutions to prioritise preventing fraud and corruption, putting in place a whistleblowing policy only in January 2014. Supported by DFID, PIDG is now improving spending procedures in key areas, informed by work commissioned after possible irregularities in administrative costs were missed for several years.

DFID's engagement has increased, but coordination with country teams remains limited

2.24 PIDG donors set the overall strategy and provide high-level challenge to facilities. DFID also engages with some of PIDG's day-to-day operations too, which may be appropriate given the weaknesses in governance identified above. We assessed DFID's:

- skills and resources;
- strategic oversight;
- project-level challenge; and
- coordination between country offices and PIDG projects.

Skills and resources

2.25 DFID's private sector department is responsible for oversight of the UK's interests in PIDG. Since 2011 its team has grown from two to seven people (4.7 full-time equivalent employees); most other donors assign only one or two employees to their PIDG team, typically acting part-time. We estimate that the team's staff costs for 2013 were around £240,000.

2.26 The team has long included members with substantial development experience, but DFID has also brought in people with experience of investment and development banking, and energy infrastructure. However, the complexity of some of PIDG's operations may require specialist expertise that is in high demand. Moreover, the pressure on the central team is likely to increase as PIDG expands. DFID told us that it is recruiting more staff and increasing the existing team's focus on PIDG.

2.27 DFID has also recruited private sector development advisers throughout the organisation, increasing their number from around 30 in 2011 to 80 by the end of 2013, of whom about two-thirds are based overseas.[12] These advisers should help DFID to integrate private sector development into departmental programmes.

Strategic oversight

2.28 Like other donors, DFID's primary contact with PIDG is through formal procedures, particularly quarterly reporting sessions and six-monthly governing council meetings. DFID also has frequent informal contact with facilities and the PMU outside these channels, for instance to discuss reputational, urgent or sensitive matters.

2.29 We observed DFID's active participation at PIDG's November 2013 governing council meeting. Although DFID is in principle just one of nine donors, it appears to have more leverage than others, partly due to its large well-informed team. Donors, PMU and facilities told us that DFID had driven moves to improve PIDG's governance and performance measurement standards. DFID has gained approval for most of its proposed new initiatives within PIDG, such as introducing one independent facility evaluation each year.

Project-level challenge

2.30 DFID, along with other donors, plays a formal role in assessing projects proposed for DevCo and Technical Assistance Facility (TAF) grants. It also must approve proposed projects that contradict a facility's investment policy (for instance, those in non-standard sectors).

12 Independent Commission for Aid Impact, *DFID's Private Sector Development Work*, May 2014.

2.31 DFID asks its country teams for comments on DevCo and TAF grant applications. We examined the correspondence for our case study projects, along with five of the most recent DevCo requests for DFID funding. DFID country teams asked relevant questions, occasionally leading to changes. For instance, DFID India's challenge of the consultancy fees for DevCo projects in Odisha resulted in a joint procurement approach which reduced expected costs by 58 per cent.

2.32 DFID's oversight of TAF and DevCo projects is welcome, but the extent to which proposals have been rejected suggests limited challenge of their fundamental bases: to March 2014, donors had rejected four of the 220 applications made by TAF and DevCo in total (PMU rejected one). DFID and PIDG considered this reflected the facilities' quality assurance of their proposals.

2.33 DFID also challenges projects at governing council meetings, quarterly facility meetings with the facilities it funds and informal discussions. DFID stated that it was concerned not to be a 'shadow director' – that is, to interfere with board decisions. DFID told us it had attended five facility board meetings in the last two years, but it does not routinely observe such meetings or view board papers to gain assurance, meaning that its concerns may only be raised at a late stage.

Coordination between PIDG and DFID's country teams

2.34 DFID's country teams view infrastructure as crucial, with 96 per cent of teams surveyed identifying lack of adequate infrastructure as a major barrier to economic development (**Figure 8** overleaf). Seventy-nine per cent of teams were tackling a lack of private investment in infrastructure, but many said they lacked contacts and expertise.

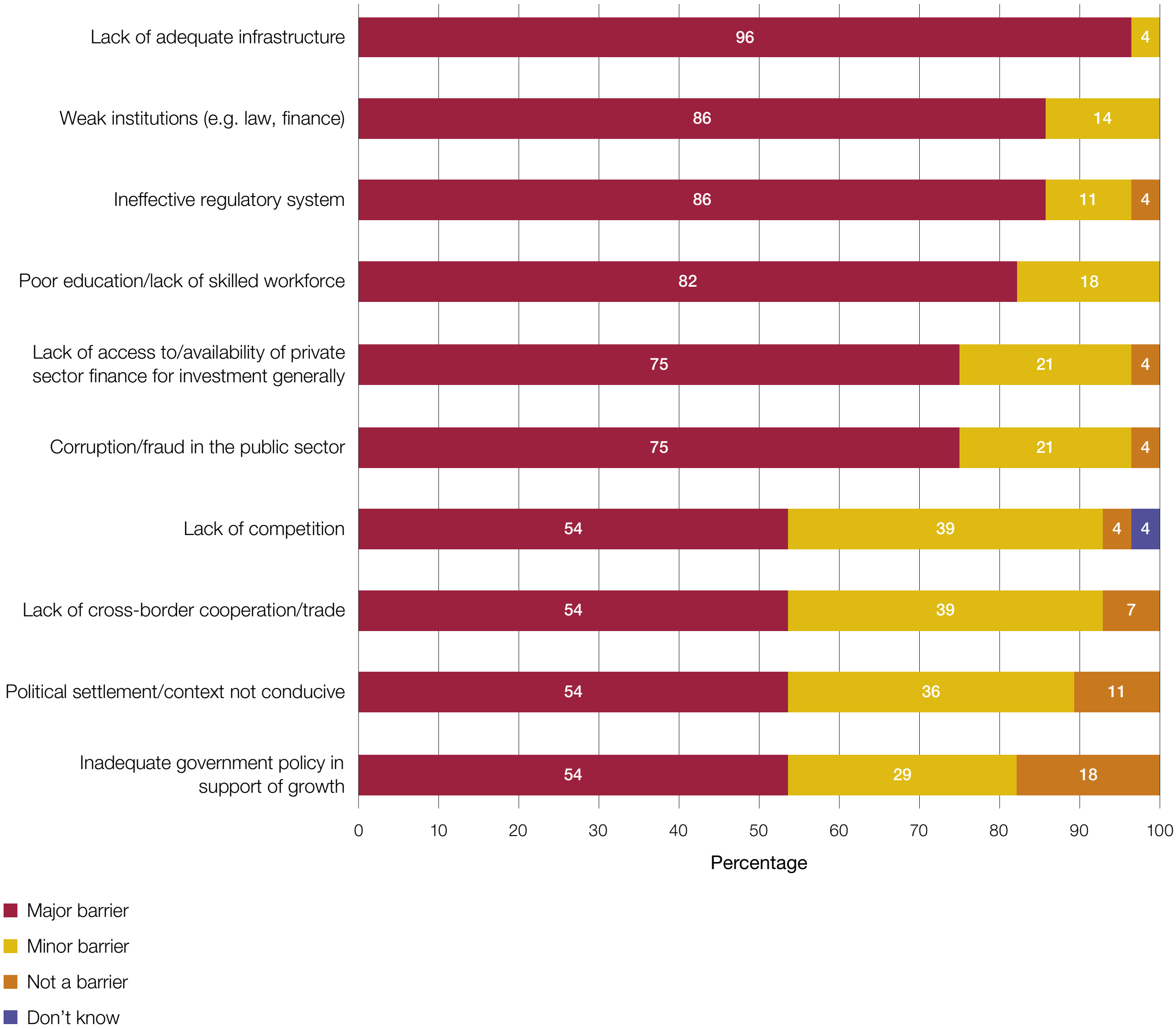
2.35 Teams aware of PIDG agreed it is relevant to their work, with 94 per cent stating that PIDG projects aligned with DFID's objective to reduce poverty. They thought that lack of public sector capacity was the main barrier to private investment, but they also saw issues PIDG focuses on as important, such as a lack of suitable partners to share costs and risks (**Figure 9** on page 33).

2.36 However, country teams do not consider their programmes as part of a portfolio alongside those funded by PIDG and other multilaterals, and are not routinely consulted in advance about PIDG projects other than those funded by DevCo or TAF. Fifty-six per cent of the teams never or rarely considered PIDG as an option when developing infrastructure project business cases. Some survey respondents identified the risk of a lack of effective coordination, with one commenting this made it more likely there was a "separation between the aims and objectives of PIDG and those of DFID".

Figure 8

DFID country teams most often cited poor infrastructure as a major barrier to economic development

Barriers to economic development identified by country teams



Notes

1 Responses from 28 DFID country teams.

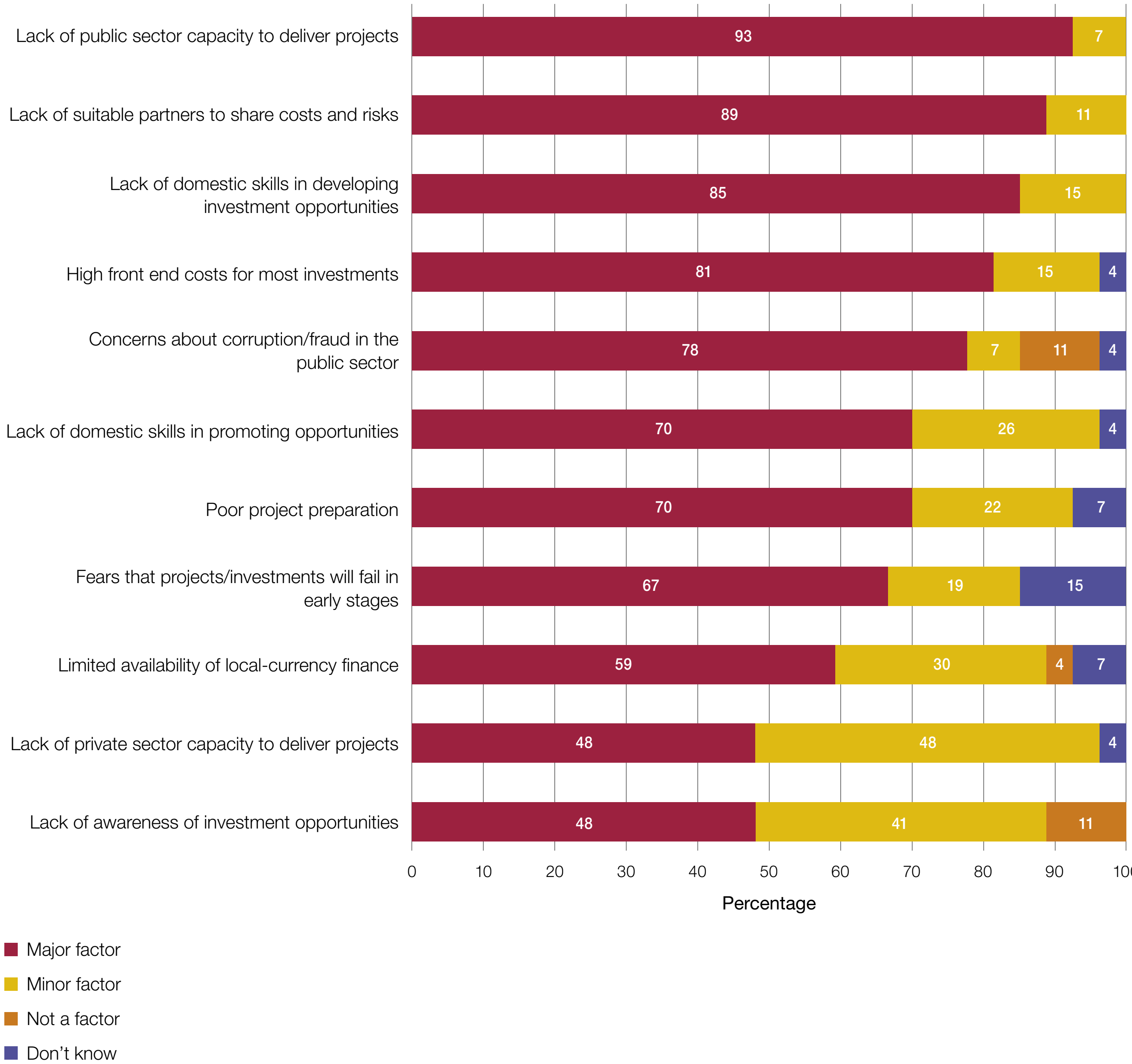
2 Numbers are rounded.

Source: National Audit Office analysis

Figure 9

Country teams identified lack of skills and capacity as key factors explaining inadequate private investment

Factors explaining the lack of private sector investment in infrastructure



Notes

1 Responses from 27 DFID country teams.

2 Numbers are rounded.

Source: National Audit Office analysis

2.37 There have been benefits where DFID country teams and PIDG facilities have worked together. For instance, DFID Kenya worked with the national government to help tackle issues holding up InfraCo Africa's Nairobi Commuter Rail project.

2.38 Our country visits found little awareness of PIDG project developments in country teams, potentially leading to poor coordination or a failure to learn lessons. DFID Uganda was unaware of an industrial dispute between waste management contractors and Kampala City Council arising from a DFID-funded project. DFID India had not received DevCo's consultancy reports despite their direct relevance to its projects. Recipients of PIDG funding in India typically did not know that the UK was the ultimate source of most investment. Although the promotion of UK enterprise is not an objective of development aid, representatives of UK Trade & Investment felt that some opportunities could be lost in consequence. DFID plans to improve liaison between its country teams and multilateral bodies, focusing on the biggest and riskiest decisions.

Part Three

Reporting to DFID on PIDG's performance

3.1 This Part assesses the Department for International Development's (DFID's) oversight of the Private Infrastructure Development Group's (PIDG's) development and financial performance, including how it gains assurance that the information it receives is accurate, and how it acts to improve PIDG performance. We also assess how DFID manages its investment in PIDG.

PIDG performance reporting is comparatively advanced but imperfect

3.2 PIDG reports many development and financial indicators to DFID and other donors, ranging from the numbers of people receiving better services to the profit and loss record of facilities. Its project reporting comprises three elements:

- regular reporting on ongoing projects;
- one-time post-completion reviews of operational projects; and
- commissioning independent mid-term reviews or evaluations of PIDG.

3.3 Regular reporting. Facilities complete standardised templates and are expected to comply with PIDG's results monitoring handbook. This includes detailed guidance on methods of estimating impacts, which have been developed to align with standards jointly developed by the DFI Indicator Harmonisation Group. The programme management unit (PMU) reviews completed templates, sometimes excluding results that are hard to verify. In 2012, PIDG commissioned an independent desk-based review of results monitoring from 12 financially closed projects. This was largely positive, and stated that some projects could have more beneficial impacts than had been reported.

3.4 The regular reporting system provides a rich data source to help donors understand their portfolio of interests, and PIDG publishes quarterly online updates of its investments and their expected impacts. However, returns varied in the depth of information provided, as well as the extent to which calculations and assumptions underpin claims about development impacts. The reporting tool does not ask facilities to assess the risks to delivery or the possible negative impacts of projects.

3.5 Reviewing completed projects. With DFID encouragement, PIDG has reviewed constructed and operational projects to check whether they achieved predicted outcomes. PMU identifies eligible projects, completes a desk-based assessment and gets sign-off from the project recipient and facility manager. PMU reported reviewing 46 projects; overall results suggest that their impacts exceeded predictions (**Figure 10**).

3.6 This offers a partial view of the impacts of PIDG projects, but does not give DFID and other stakeholders full assurance. It does not assess whether initial assumptions, such as about the proportion of poor people who would use a service, actually materialise. Moreover, it is not independent of the manager and requires the consent of the project sponsor, meaning negative effects may be ignored.

3.7 Evaluation. PIDG has commissioned one formal evaluation of a completed project, assessing the indirect impact on jobs of a Ugandan power plant (see Figure 3 on page 16).[13] PIDG has a schedule of periodic independent reviews of facilities and had conducted 12 by the end of 2013. With DFID support, PIDG has agreed to conduct an annual facility evaluation, with one on DevCo conducted in 2013 which included project-level analysis. These assessments have focused more on how relevant and effective facilities are than their development impacts.

Figure 10

PIDG estimates that its eventual impacts are greater than predicted

Reported by PIDG	Estimated impacts: predicted	Estimated impacts: post-completion monitoring	Difference (%)
Total private sector investment committed (US $m)	10,285	11,265	10
Additional people served	30,495,684	59,878,577	96
People with improved quality of service	22,193,675	52,465,483	136
Short-term jobs	9,705	10,807	11
Long-term jobs	171,147	187,306	9
Fiscal impacts (US $m)	2,767	3,344	21

Notes

1 The large increases in people served and with better services are due to revised estimates of the impacts of some telecoms projects.

2 Reviewed projects include 11 DevCo projects. PIDG does not report these as 'constructed' because DevCo support includes advisory services for both new and existing infrastructure.

Source: National Audit Office analysis

13 Overseas Development Institute, *Job Creation Impact Study: Bugoye Hydropower Plant, Uganda*, 2013.

3.8 While these assessments have been useful, we consider them insufficient given DFID's growing investment in PIDG and the acknowledged evidence gaps. PIDG offers the opportunity for targeted assessments that could help DFID and other donors to understand what works best, where and why, so that future investment can be directed accordingly. In June 2014, PIDG donors agreed to consider scaling-up monitoring and evaluation, and committed US $250,000 to the 'Let's Work' programme to improve evaluation of employment impacts across development finance institutions.

DFID has encouraged better performance reporting by PIDG, and relies on the figures it receives

3.9 DFID has encouraged PIDG to add further dimensions to the impacts it predicts, including disaggregation by gender and the number of people below the poverty line, as well as qualitative assessments of additionality[14] and effects on climate change. In October 2012, encouraged by DFID, PIDG agreed to start independent evaluations of one facility each year.

3.10 Given PIDG's multilateral status, DFID relies on PIDG to assess its performance. We saw some evidence of DFID challenging PIDG's reporting, but it largely accepts PIDG's overall performance figures, using them in its business cases and annual report. DFID team members have sometimes accompanied PMU on project visits to get a better understanding of their impacts, but we saw only limited evidence of internal DFID reporting.

3.11 The limitations in PIDG's reporting and quality assurance create the risk that DFID understates or overstates the achievements arising from its funding. DFID's approach may be appropriate in the case of financial reports, which are relatively standard and subject to independent audit. But it is more concerning in the case of development impacts, which are inevitably harder to quantify, and often based upon the judgements of managers and project sponsors.

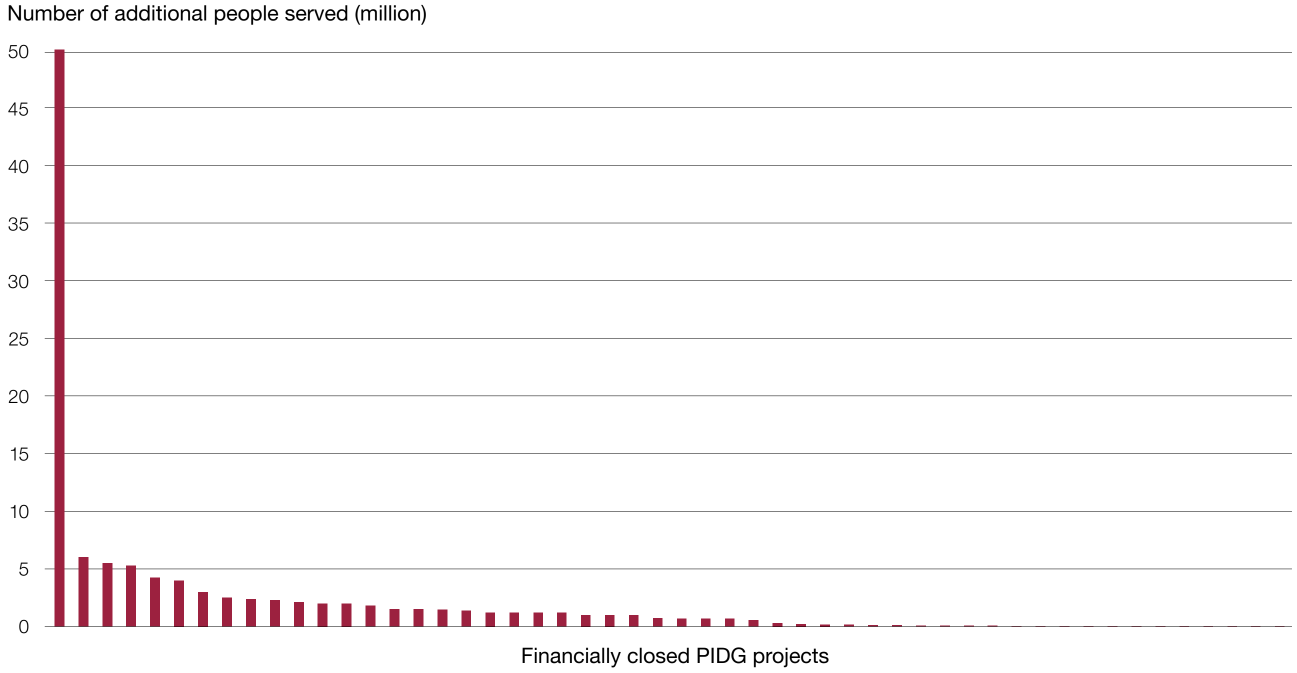
3.12 Several of the expected development impacts claimed by PIDG rely on a handful of projects. For example, one of its closed projects, supporting satellite telecommunications, accounts for 45 per cent of all additional people served, and four projects account for 45 per cent of all those receiving better quality services (**Figure 11** overleaf). Seventy-five per cent of the 214,099 long-term jobs it expects relate to support for an Indian financier of commercial vehicles.

3.13 This raises risks for DFID if these claims are wrong or if one or two projects run into difficulties. For instance, in early 2014, the Emerging Africa Infrastructure Fund (EAIF) and GuarantCo reported potential underperformance in several closed projects, relating to £1.4 billion of private investment and 52 million of PIDG's total 185 million expected beneficiaries. However, PIDG has not adjusted its expected performance claims to reflect these problems. It is unsurprising that project effects vary in size, particularly where projects may be transformational. However, we saw little evidence that PIDG and DFID were considering the risks to development claims on a portfolio basis.

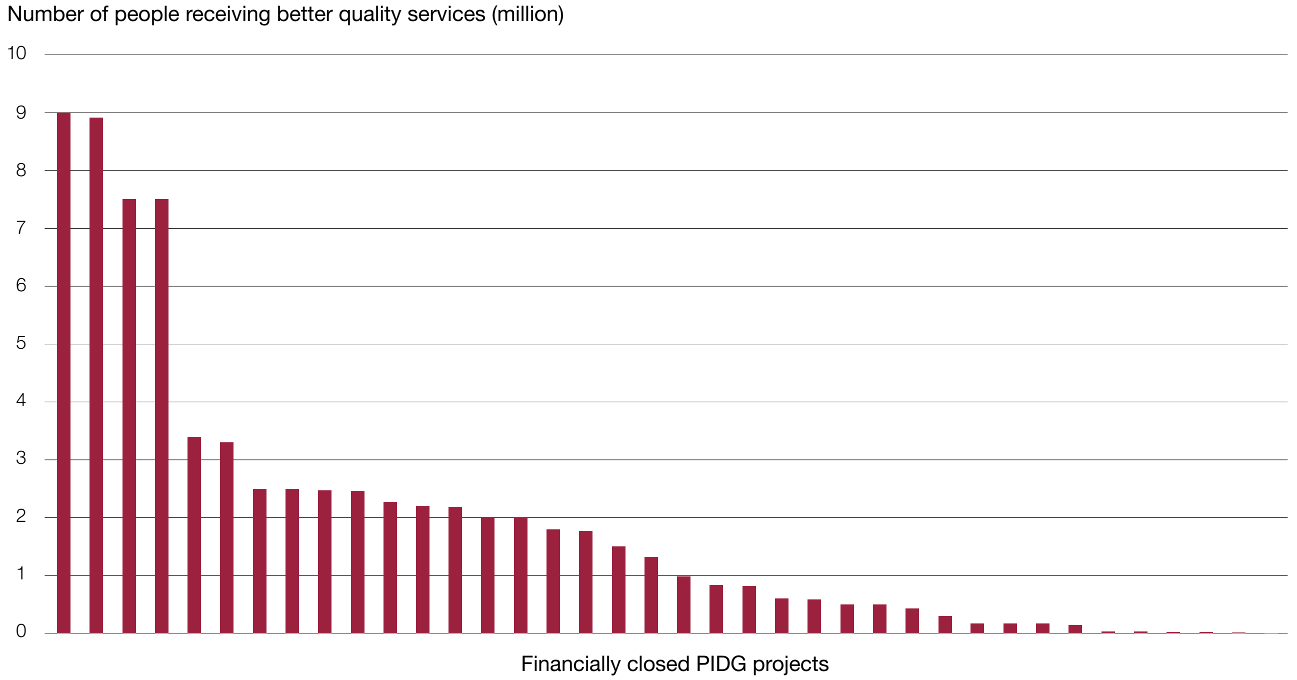
14 Whether the investments would have happened without its involvement.

Figure 11
PIDG's reported impacts rely heavily on a few projects

The number of additional people PIDG expects to be served by its closed projects



The number of people PIDG expects will receive better quality of service because of its projects



Source: National Audit Office analysis

3.14 To assess three important examples of PIDG's performance reporting, we considered its approach to establishing:

- whether the investments would have happened without its involvement (additionality);
- how much private investment they encouraged; and
- how strong are facility project pipelines.

Additionality

3.15 PIDG has worked to develop a common understanding of additionality across development finance institutions, and its measurement systems are more advanced than those of similar organisations.[15] PMU asks managers to provide qualitative assessments of:

- whether the investment would have happened anyway;
- whether it has been implemented better because of PIDG's involvement; and
- whether the project has improved the regulatory environment.

3.16 This approach is valuable, but relies on the ability and motivation of fund managers. To consider the additionality of PIDG projects, we carried out interviews during our country visits. In Uganda and Nigeria, longer-term financing for infrastructure is very limited, although opportunities in Nigeria are increasing. This means that PIDG's long-term investments will often be additional. In India, long-term financing is more readily available, but stakeholders noted difficulties in funding early-stage project development.

3.17 We asked funding recipients whether they could have gone elsewhere for support (**Figure 12** overleaf). Most stated that PIDG funding was essential, but some suggested viable alternatives.

3.18 In our survey, the eleven DFID country teams who were able to comment on recent PIDG projects had mixed opinions on their additionality. Four thought that the most recent project would probably or definitely not have happened without PIDG's involvement, but five could not say, and two thought it would or probably would have happened anyway.

15 Institute of Development Studies, *Development Finance Institutions and Infrastructure: A Systematic Review of Evidence for Development Additionality*, August 2012.

Figure 12

PIDG's additionality: case study examples

Nigeria – Tower Aluminium

Tower Aluminium, a roofing manufacturer, had financed a new factory with a loan in US dollars, but the cost of servicing that loan increased when the Naira (Nigerian currency) devalued. It wanted to issue a seven-year Naira-denominated corporate bond to reduce its currency risk and extend the length of its debt. GuarantCo guaranteed Tower Aluminium's bond issue, making it eligible for pension fund investors. Company representatives said they had not identified other organisations that would guarantee losses.

India – Shriram

In 2008, GuarantCo, along with other lenders, provided guarantees in support of Shriram, India's largest financier of commercial vehicles. This allowed Shriram to make an estimated 64,000 loans to 128,000 people. This innovative deal subsequently persuaded banks to provide similar financing. In 2010, GuarantCo again provided support to help it make an estimated further 16,000 loans. PIDG may have accelerated Shriram's expansion, but, with US $5 billion of assets under management, it had several alternative funding options.

Uganda – Kalangala

The Government of Uganda did not consider four separate projects on the island of Kalangala to be individually viable. InfraCo Africa integrated them into one project, making them more likely to realise profits and more attractive to investors. Community representatives told us that there was little interest from other bodies before PIDG's involvement, though the growth of Kalangala's palm oil industry may have eventually stimulated investment.

India – DevCo projects in Odisha

State officials for Odisha praised the International Finance Corporation's (IFC's) and DevCo's support for public–private partnership deals, stating that it was better than that from other providers. However, they also said they had enough money to pay for the consultants funded by DevCo. The winning bidder of a streetlighting project told us he could have paid for consultancy as part of his 'success fee' payment to IFC.

Note

1 Appendix Three provides more information.

Source: National Audit Office analysis

Leverage

3.19 PIDG aims to leverage in private investment to fund projects and facilities – to achieve greater impacts and to demonstrate the commercial viability of private infrastructure investment in developing countries.[16] DFID uses PIDG's assessments of the amount of private investment leveraged by facilities as an important factor in judging facility performance.

3.20 There is no agreed best practice across development finance institutions for calculating leverage. PIDG claims that it will leverage in £24 for each £1 it invests, based on the extent of private investment in facilities and in funded projects. It reports that there has been £6.2 billion of total investment in fully operational projects and expects £17.3 billion of total investment in projects reaching financial close.

3.21 The baseline assumption behind PIDG's leverage claims is that other investors would not have contributed without its involvement. In practice, this is difficult to assess rigorously. PIDG's leverage claims look questionable to us in several projects, because:

- PIDG often is not the lead arranger of financing. For instance, FMO (the Dutch development bank) invited GuarantCo and CDC to contribute to financing Au Financiers, a commercial vehicle financier in India. GuarantCo reports that its US$20 million guarantee has enabled US$171 million of project investment, but we were not convinced that the other financiers would not have contributed without GuarantCo involvement.

- PIDG's funding can be a small proportion of total project funding, particularly in the case of DevCo. For instance, DevCo reports that its US$1.75 million of funding for a Javan power project will generate US$3,500 million of total investment.

Building up pipelines of potential projects

3.22 We found it hard to identify facilities' project pipelines from the material regularly presented to donors. Quarterly reports contain brief information on the projects being approved at board, credit committee or new business committee stage. They do not provide a consistent or easily understood picture of the range of potential projects. DFID told us it would keep the pipeline under review as it develops its funding plans.

3.23 Attrition within pipelines is natural but can be significant, with many unlikely to reach board consideration, let alone successful close. For instance, in February 2014 GuarantCo listed 18 projects expected to close in 18 months, relating to potential commitments of £178 million. However, it also listed ten that had been expected to close in the last year but had not done so.

3.24 Once a project is approved, funds may not be needed for many years; six of PIDG's 40 projects in active development have been so since between 2006 and 2009.

16 'Leverage' refers to the extent to which PIDG uses donors' contributions to draw in additional funding from elsewhere.

3.25 DFID needs to allow for this in planning its future spending. For example, the business case for Green Africa Power foresaw ten projects by 2016, and Frontier Africa Investment Resource is expected to close seven projects by 2017. While initial work has identified potential projects for these initiatives, experience suggests projections can be too optimistic.

DFID has encouraged PIDG to set targets, for which PIDG reports mixed results

3.26 Every year, PIDG members approve five-year targets for the facilities based on their project pipelines. These are aggregated to create an overall set of PIDG targets for numbers of projects, private investment and the proportion of projects and commitments in poorer and fragile states. The targets for investment in poorer and fragile states appear stretching compared with the investment records of other development finance institutions. PIDG exceeded two of its three main targets set in 2011 for the end of 2013, but the target for investment in poorer states was missed and was below the baseline (**Figure 13**). In its 2011 business case, DFID expected 60 per cent of PIDG projects to be in fragile states by 2015, and 85 per cent of PIDG commitments to be in low-income countries. At the end of 2013, the figures were 49 per cent and 84 per cent respectively.

Figure 13

PIDG reports that it has exceeded two of its three key performance targets set in 2011

Indicator	Baseline (December 2010)	Target set in March 2011 for end of December 2013	Reported by PIDG at end of December 2013[4]
Cumulative private sector investment from closed projects[1]	US$13.1billion	US$20.5 billion	US$23.4 billion
At least 75 per cent of private sector investment under PIDG to be in DAC I and II countries[2]	75%	75%	66%
Cumulative number of people benefitting from increased availability/improved quality of infrastructure services[3]	96.1 million	120.8 million	175.1 million

Notes

1 Excluding ICF-DP.

2 Excluding ICF-DP and GuarantCo. DACI and DACII countries are those identified as the world's poorest by the Organisation for Economic Cooperation and Development.

3 Excluding ICF-DP.

4 These results include a DevCo project involving US$1.75 million of funding for a Javan power project that PIDG reports will generate US$3,500 million of total investment. PIDG has excluded this from some analysis as an outlier.

Source: National Audit Office analysis

3.27 These targets provide a useful overview, but are too broad for performance management. To assess DFID's role in improving PIDG's performance, we looked at project closure rates and administrative costs in more detail.

Project closure rates

3.28 DFID has encouraged PIDG to set targets for the number of closed projects, including in fragile and poorer states. Three of the main facilities missed their latest targets, and PIDG has pushed back the milestones in response. The current 2017 targets for these facilities will not be met on current trends (**Figure 14** overleaf). DFID told us it considers that ensuring funding for good projects is more important than meeting targets.

3.29 DFID hopes that its establishment of the contestability mechanism will enable it to respond flexibly to changing circumstances and motivate facilities to close more projects. But the sanctions involved are relatively small (up to 5 per cent of the annual funding approved in 2012), and may not be enough to have a substantial impact.

Administrative costs

3.30 In its 2011 business case, DFID concluded that "PIDG's control over administrative costs is effective and represents good value for money", based on PMU's 2009 costs being 3 per cent of donor funding. PMU's costs have since remained relatively stable while donor contributions have increased. In 2012, PMU cost just over £1 million against donor contributions of £115 million (0.9 per cent).

3.31 However, this measure does not take account of the costs of running facilities and paying managers to make investments. PIDG has not regularly published or monitored its total administrative costs. DFID supported PIDG's 2012 independent mid-term review of the PMU, which found that its fees in 2010 were 0.1 per cent of all PIDG-committed funds and that total administrative costs for PIDG were 4.3 per cent of all disbursed contributions. It concluded that full benchmarking was not possible, but that PIDG operated with "average efficiency" compared with running costs of 2 to 5 per cent for international comparators.

3.32 We found that administrative and operational costs for the Trust and main DFID-supported facilities[17] were £23.8 million in 2012,[18] representing 3.9 per cent of relevant cumulative PIDG commitments and 2.8 per cent of funds available to invest. Central PIDG and facility administrative costs were £6.7 million, excluding the operational and administrative costs of fund managers and project developers.

17 Excluding DevCo.

18 To remain consistent with the administrative costs reported by InfraCo Africa in other years, we have excluded a one-off £3.9 million write back of a provision in its 2012 administrative expenses.

Figure 14

PIDG predictions for closed projects have been too optimistic

In-year closed projects	Year in which target was set	Forecast target/milestone year								Average target
		2010	2011	2012	2013	2014	2015	2016	2017	
EAIF (established 2002)	2010	4	4							4.0
	2011		5	5						5.0
	2012			5	5	5	5	5		5.0
	2013				5	5	5	5	5	5.0
	Actual	4	6	5	2					4.25
GuarantCo (established 2006)	2010	3	4	6						4.3
	2011		4	6	6					5.3
	2012			4	6	8	9	10		7.4
	2013				4	6	8	9	10	7.4
	Actual	4	4	2	5					3.75
InfraCo Africa (established 2005)	2010	4	2	2						2.7
	2011		3	1	2					2.0
	2012			1	3	2	2	4		2.4
	2013				1	2	2	1	1	1.4
	Actual	2	2	1	0					1.25
InfraCo Asia Development (established 2010)	2010	0	0	1						0.3
	2011		0	1	2					1.0
	2012			0	1	2	2	3		1.6
	2013				1	2	2	3	2	2.0
	Actual	N/A	N/A	0	1					0.5[1]
DevCo (established 2003)	2010	6	4	5						5.0
	2011		6	4	5					5.0
	2012			5	5	5	5	5		5.0
	2013				5	5	5	5	5	5.0
	Actual	3	3	1	4					2.75

- Met/exceeded most recent logframe target for that year and those set previously for that year
- Met/exceeded most recent logframe target for that year, but not those set previously for that year
- Did not meet most recent logframe target for that year
- Average actually closed per year

Notes

1 Adjusted to reflect that InfraCo Asia was not expected to close any projects in its first two years.

2 For example, in 2010 members agreed a target for EAIF to close four projects in 2010 and four projects in 2011. In 2011, members agreed a target for EAIF to close five projects in 2011 and five projects in 2012. EAIF actually closed four projects in 2010, meeting the target set for it in 2010. In 2011, EAIF actually closed six projects – exceeding both the target set for it in 2010 (four projects) and the target set for it in 2011 (five projects).

Source: National Audit Office analysis

DFID's management of its financial investment in PIDG exhibited weaknesses

3.33 We assessed how DFID manages its direct investment in PIDG and how it oversees facilities' financial performance.

3.34 DFID's investment. In principle, the PIDG Trust should hold funds only on behalf of the Technical Assistance Facility (TAF) and to cover administrative costs. Donor funds for other facilities should be passed on rapidly to the facilities that can use them. However, DFID paid some money into the Trust well before funds were paid out to facilities, because of over-optimistic expectations (**Figure 15** overleaf). Between January 2012 and February 2014, DFID funds in the PIDG Trust account averaged £26.8 million. One payment of £6.5 million, intended for InfraCo Asia Investments, was held in the Trust between December 2011 and April 2014. The Trust, DFID and facilities agreed to move £13.5 million from the Trust to facilities after we raised the issue.

3.35 DFID's holdings in the PIDG Trust mean that funding is not available to the UK Exchequer or to beneficiaries in poor countries. This imposes an opportunity cost. Assuming that the government had instead used the funds to pay down UK government debt at an annual interest rate of 0.5 per cent, the cost was around £200,000 since 2012. Assuming that the government had used the funds to invest in a project that achieved returns at the government's assumed social time preference rate in the UK (3.5 per cent after inflation), the cost was around £2 million.

3.36 DFID kept its holdings under review but was too optimistic about when the funds could be used. It explains the delays as due to difficulties in agreeing changes to PIDG's operating model and establishing new initiatives. DFID has encouraged PIDG to develop a central Treasury Policy by July 2014, and has decided to use promissory notes for some future payments. Following actions by DFID and PIDG, the balance of DFID funding in the PIDG trust fell to £5.9 million at the end of May 2014.

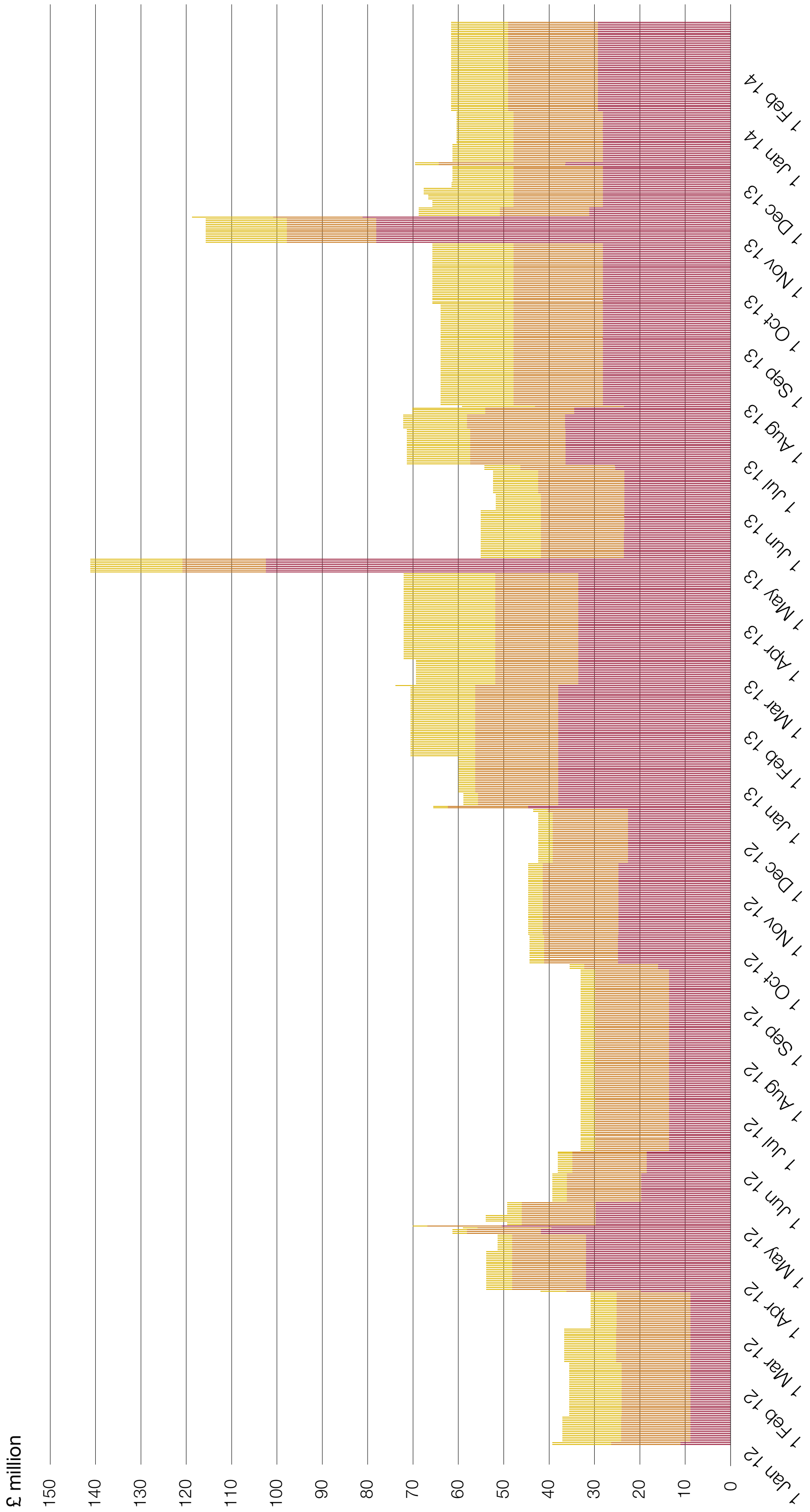
3.37 Once funds are paid out by the PIDG Trust, they move to similar trust arrangements in facilities, where they are held until they are spent on projects. At the end of 2012, facilities that DFID fund held £112 million.[19] GuarantCo, which needs a pool of funds to back up its guarantees, held 47 per cent of this amount. The InfraCos also need sufficient funds to enter into contractual arrangements. PMU told us that it is establishing a system for reviewing facilities' holdings, including the amounts they need to hold for commercial purposes.

19 This includes funds from other donors and investors.

Figure 15

DFID has left substantial holdings in the PIDG Trust

Cash held in the PIDG Trust, 1 January 2012 to 28 February 2014



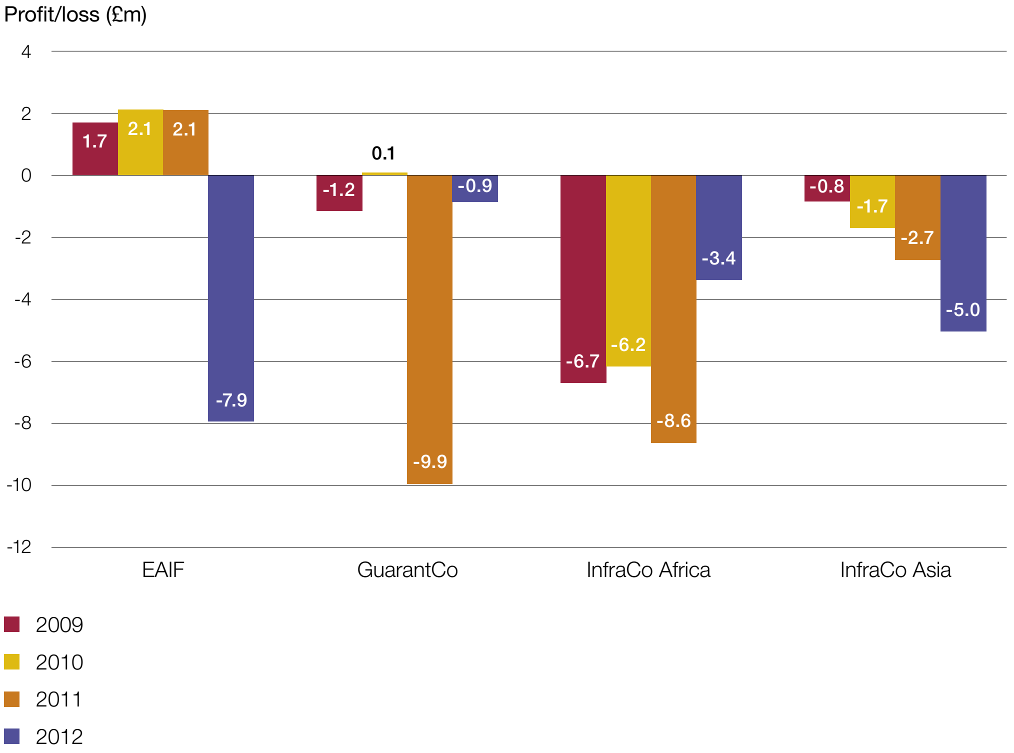
Source: National Audit Office analysis

3.38 Facility financial performance. DFID does not view financial returns as a primary reason for investing in PIDG. But it recognises that adequate financial returns help to sustain the PIDG model and provide value for money for DFID's investments. Between 2009 and 2012, the four main DFID-funded facilities largely made losses (**Figure 16**). For instance, EAIF recorded a £13.6 million provision for impairment of its loans for two projects in 2012. In 2013, EAIF reported profits of £6.8 million, and PIDG told us that the impairments were the first in EAIF's history.

3.39 PIDG expects EAIF and GuarantCo to make modest profits over the medium term, but expects InfraCo Africa and InfraCo Asia to make continuing losses on their most developmental investments. DFID told us that GuarantCo had made cumulative gains of US$3.2 million up to 2008 and its recent losses reflect short-term volatility and expansion costs. Were losses to be sustained in EAIF and GuarantCo, they would raise concerns for future viability.

Figure 16
Facilities' profit and loss records

2009 to 2012 profit/loss by facility



Note

1 To ensure consistency across facilities and years, InfraCo Africa's 2012 figure includes a one-off £3.9 million write back of a provision in its administrative expenses.

Source: National Audit Office analysis

Appendix One

Our audit approach

1 Our report examines whether DFID's interests in, and oversight of, PIDG deliver value for money and secure benefits for those in poverty in the targeted countries. Our focus is on DFID's role and interests. We considered PIDG performance in this light, but we did not audit its operations, projects or results. The report examines:

- DFID's growth strategy and the role of PIDG;
- PIDG governance and DFID's engagement; and
- PIDG's performance reporting to DFID.

2 We considered these issues against an evaluative framework described in **Figure 17**. Our audit approach is summarised in **Figure 18** on page 50.

3 Appendix Two sets out our evidence base. Our approach included interviews, a workshop, financial analysis, visits to review 16 PIDG projects in three countries and a survey of DFID's country teams.

Figure 17
Our evaluative framework

DFID's interests in and oversight of PIDG deliver value for money and secure benefits for those in poverty in the targeted countries

DFID's support for PIDG fits with its strategic policy and approach to growth	PIDG's governance and DFID's engagement with PIDG are capable of protecting DFID's interests	DFID gains assurance over PIDG's performance to inform how it manages its investment in PIDG
DFID's investment in PIDG addresses a recognised need and is founded on a consideration of relevant evidence	DFID has ensured that PIDG's governance mechanisms protect the UK's interests	DFID receives accurate information on PIDG's performance
DFID's support for PIDG secures the benefits of PIDG's multilateral nature	DFID has the skills and capacity to protect its investment	DFID seeks the information it needs on PIDG's performance and has sought improvements where needed
DFID has clearly articulated a good value for money case for its investment	DFID exercises effective challenge at the strategic and project level	DFID has sought to ensure effective financial management is in place to protect its investments in PIDG

Source: National Audit Office

Figure 18
Our audit approach

The objective of government

DFID leads the United Kingdom's effort to fight global poverty. In recent years, DFID has focused on boosting economic development to reduce aid dependency. It regards better infrastructure as a prerequisite for growth and poverty reduction. DFID aims to increase private investment in infrastructure from both international and domestic investors.

How this will be achieved

DFID describes the Private Infrastructure Development Group (PIDG), a multilateral body, as the most important vehicle supporting this aim. In 2012, DFID substantially increased funding for PIDG – to a maximum of £700 million to March 2015.

Our study

This report examines whether DFID's interests in, and oversight of, PIDG deliver value for money and secure benefits for those in poverty in the targeted countries.

Our evaluative criteria

How clearly does DFID's support for PIDG fit with its strategic policy and approach to growth?

Are PIDG's governance and DFID's engagement with PIDG capable of protecting DFID's interests?

How does DFID gain assurance over PIDG's performance and manage its investment in PIDG?

Our evidence

(see Appendix Two for details)

- Interviews with DFID officials
- Analysis of key literature
- Analysis of DFID papers
- Roundtable with DFID
- Workshop with key parties
- Survey of DFID country teams

- Interviews with DFID officials
- Analysis of DFID papers
- Review of PIDG papers
- Survey of country teams
- Interviews with PIDG PMU and facilities
- Interviews with donors and investors
- Observation of PIDG meetings
- Visits to three countries

- Interviews with DFID officials
- Analysis of DFID papers
- Analysis of PIDG data
- Survey of DFID country teams
- Interviews with PIDG PMU and facilities
- Interviews with donors and investors
- Visits to three countries
- Observation of PIDG meetings

Our conclusions

DFID's investment in PIDG is a key plank in its strategy to encourage private sector development in poor countries, helping to mobilise private investment and provide vital infrastructure. While gaps in the evidence remain, the use of commercial expertise to support private infrastructure investment aligns with DFID's evolving strategy. Many PIDG projects look likely to achieve both good development impacts and financial returns, often in difficult environments.

DFID has successfully encouraged PIDG to improve its targeting of investments and performance reporting. But its oversight of PIDG has overall been insufficient to ensure value for money from its substantially increased funding. PIDG is providing important benefits to poor people, but DFID lacks sufficiently robust information to demonstrate that investment in PIDG is the best option. DFID's financial control has also been lacking, allowing the PIDG Trust to hold DFID funding averaging nearly £27 million since 2012. DFID has recently made good progress in tackling these issues, which will put it in a better position to achieve value for money. But we consider that it should have taken more action earlier given its decision in 2011 to increase funding for PIDG fivefold.

Appendix Two

Our evidence base

1 We reached our independent conclusions on DFID's interests in, and oversight of, PIDG following our analysis of evidence collected between mid-November 2013 and May 2014.

2 Our audit approach is outlined in Appendix One. Our main evidence sources were:

- **Analysis of key literature** relevant to investment in infrastructure in developing countries and the role of private sector investors.
- **Semi-structured interviews with:**
  - **senior analytical leads in DFID**, including the chief economist;
  - **the DFID team responsible for PIDG**, as well as other London-based policy teams investing through PIDG facilities;
  - the **PIDG programme management unit (PMU)**;
  - the **chair's office and special counsellor for PIDG**;
  - **PIDG facility board chairs**;
  - **members of the managers' teams** for the facilities;
  - **three large London-based financial firms** with experience of infrastructure investment (two of which had invested in PIDG facilities); and
  - **academic experts**.
- **A roundtable discussion** with senior DFID officials, including the PIDG team, in December 2013.
- **A workshop** at Oxford University in March 2014, with senior DFID officials, PIDG PMU, PIDG facility representatives and leading academics in the field of development economics and investment in infrastructure.

- **A review of key DFID documents**, including internal papers relating to decisions about investing in PIDG.
- **A review of key PIDG documents**, including reviews, the PIDG results monitoring handbook, recent board papers, facilities' quarterly reports to donors and minutes of meetings.
- **Quantitative analysis** of key data supplied by PIDG, including of cash movements through the Trust, board throughput and directors' expenses. Where appropriate, we converted US dollar and euro figures to sterling using data from Bloomberg on daily exchange rates and the Bank of England on annual average exchange rates.
- **Assessment of public information on comparable bodies** to PIDG, including CDC, FMO and IFC.
- **An email survey of, and discussions with, five donor members of PIDG** (Australia, Germany, Ireland, Sweden and Switzerland).
- An **online survey of all DFID country teams** based overseas to request their views on the barriers to growth, the importance of infrastructure to growth in developing countries and barriers to private investment. We asked teams for their experiences of working with PIDG and views on PIDG's approach and relevance to their work. The survey was conducted from 4 February to 28 February 2014, although we accepted some later responses. We sent the survey to 31 teams, including those covering the 28 countries DFID has identified as priorities for its bilateral programmes. We received 28 responses, including 25 from teams covering DFID's priority countries.
- **Non-participant observation** of the PIDG governing council in November 2013, and of a facility board meeting, credit committee meeting and new business committee meeting.
- **Visits to Uganda, Nigeria and India.** We selected these countries to ensure we covered a broad range of PIDG facilities and infrastructure sectors, as well as project types, sizes and stages of development. In total, the countries represent 31 PIDG projects out of 106 (29 per cent), US$436 million of reported PIDG commitments out of US$1,481 million (29 per cent), and US$8,402 million of reported PIDG private sector investment out of US$28,716 million (29 per cent). We looked at a total of 16 projects in these three countries. We also conducted a brief desk-based review of a PIDG hydropower project in Vietnam. Appendix Three (published online) provides further information on our findings.

- During our visits to the three countries, we sought to understand:
  - the role of infrastructure in driving growth and reducing poverty in the country;
  - key recent and potential developments relating to growth, poverty reduction and investment in infrastructure;
  - the nature, extent of and barriers to domestic and foreign private investment in infrastructure;
  - the activities of the DFID country team in relation to investment in infrastructure;
  - DFID country teams' and state officials' awareness of, relationship with and views on PIDG's work in the country;
  - DFID country teams' bilateral programmes and projects in support of infrastructure investment;
  - the history and nature of PIDG's involvement in the country generally; and
  - each of the PIDG projects we had identified for review, including the need for the project, its history, latest position, as well as its expected and actual impacts.
- To improve our understanding of the wider issues, we held semi-structured interviews in-country with:
  - DFID country teams, including the head of office where possible;
  - the facility managers responsible for the projects assessed;
  - domestic national and state-level government officials; and
  - other stakeholders with an interest in infrastructure development, including representatives from the local offices for development finance institutions, domestic private and public sector investors and business groups.
- To understand the 16 PIDG projects, we:
  - reviewed data held by PMU on its results monitoring system;
  - reviewed background papers provided by the facilities involved with the projects;
  - conducted a brief physical inspection of the site wherever relevant and possible;
  - interviewed the funding recipient and team implementing the project;
  - interviewed local officials with an involvement in the project; and
  - interviewed local business and community representatives to discuss expected and actual positive and negative impacts.

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