



Private Infrastructure Development Group

To: Declan Magee, DFID (for publication), DFID Private Sector Team
From: Andrew Reicher, Programme Manager
Subject: Multilateral Aid Review – PIDG PMU response
Date: 31 March 2011

In the DFID Multilateral Aid Review Summary, there were eight areas in which reservations on PIDG's record were expressed. This note is formally to respond, comment where appropriate on the specific circumstances, and suggest the actions the PMU intends to take to improve our performance in these areas. Please note that as a multilateral, PIDG endeavours to reconcile the objectives of all eight of its members, not every one of which is mutually consistent. Where actions are suggested, these will in some cases need to be agreed by the membership in due course. Some of them may involve costs for which the PMU does not currently have the budget to implement, and so we would also in such cases need some funding to act as proposed.

Contribution to UK development objectives:

1. *Tightly focussed facilities, so not delivering across the whole spectrum of development.*

The PIDG, as a portfolio of deliberately experimental activities, the majority of which have proved themselves and now become firmly established, is intended to function only in the infrastructure sector and also, only in promoting greater private sector participation, so therefore, by its nature, confines itself to a small part of the development spectrum. This is in our view a source of PIDG's strengths.

However, we recognize that within the economic infrastructure sector, there are segments, and aspects of market failures, to which our particular approach could be extended. The last PIDG meeting in Vienna in November 2010, tasked the PIDG PMU to submit a paper to the next PIDG meeting, in Berlin in May 2011 setting out options and suggestions for new fields of activity. One such field which we believe will fit well with the UK's development objectives, is that of agricultural infrastructure to improve food security and trade competitiveness.

Suggested action

A paper on new fields of PIDG activity will be submitted for consideration by members at May Governing Council Meeting.

2. *The PIDG has made no effort to date to target investments at women and girls or to report using gender disaggregated data*

The PMU recognizes and accepts this criticism. We would however point out that PIDG did try to capture data disaggregating the effects of our activities by gender, in 2005. At that time, the level of information to do so was insufficient, especially since it was early in the organization's life and all impact numbers were prospective because no projects had been completed (infrastructure projects take a minimum of 3/4 years to develop and build, and in many cases considerably longer). But in the past six years, considerable improvements have been made to our results reporting and the underlying databases, as well as there being increasing numbers of projects having entered operation, so there is now a basis for a constructive response to the DFID observation.

Suggested actions

First, we propose commissioning a small study of the level of gender disaggregated data already available from individual project ESIAs, and making design improvements to our results reporting so that we can begin systematically to collect and report disaggregated project impact information by gender.

Second, the PMU will also systematically sensitize facility Chairs and Boards that they are expected to press their managers actively to target their marketing and structuring activities to increase the proportion of their active potential projects with high impact in this area. Put more simply, we want facilities to work harder to find and prioritize projects which benefit women and girls. Action taken will be monitored and used as part of the evaluation of Board and Chair performance. This may include setting targets where appropriate.

3. *No formal policy on prioritising fragile states.*

One of our facilities, DevCo, does in fact have a formal policy to focus a proportion of its activities in fragile and post-conflict states. However, this is not the case for the other facilities, so the comment is recognized and accepted.

The PIDG aims to mobilize private sector investment, and the private sector is difficult enough to persuade to go to the poorest countries in which there is no history or risk of conflict. The political and security situation in fragile states increases this difficulty. Also, attracting the private sector generally requires the establishment (or at least some prospect of eventual establishment) of market systems, structures and thinking – which is also a problem in fragile states. However, there are distinctions within the category. For example, Sri Lanka, Sierra Leone and Liberia appear better prospects than, for example, Afghanistan and Somalia. So these more promising countries will be where we propose to start.

Suggested actions

Similar to the previous issue, we propose requiring all facilities to incorporate an appropriate policy in their IPOPPs and specific figures in their business plans, setting out in writing the actions they will take to assess the potential in their business to increase activities in fragile states – and creating firm objectives for doing so.

Also, as with asking facilities actively to seek investments for the benefit of women and girls, the PMU will also systematically press Chairs and Boards to get their managers actively to target their marketing and structuring activities to meet their targets for the proportion of their projects in fragile states. And as in the case of women and girls, action taken on fragile states will be monitored and used as part of the evaluation of Board and Chair performance. This may include setting targets where appropriate.

Organisational strengths

4. *Weak partnership with civil society. Donor country offices including DFID are poorly sighted on PIDG work.*

We would welcome dialogue with DFID to understand better the point about partnership with civil society. Every project is required under the facilities' IPOPPs to undergo a full Environmental and Social Impact Assessment before being approved. This involves extensive stakeholder consultations, requiring engagement with civil society. Our business approach explicitly involves private sector partnerships – which generally as a matter of good practice seek to establish good relationships with relevant civil society organisations. In some cases (e.g. GuarantCo's Ackruti City slum upgrading project in Mumbai, InfraCo's Chiansi community-based irrigation project in Zambia), there are very close partnerships with community associations. So we would welcome guidance on how practically we might be able to take constructive action on this point, bearing in mind the

nature of the business model for our involvement in projects.

We will also looking at how we can partner with CSO's at the PIDG level in developing strategy, and also with developing countries. This will be considered more closely in the Strategic Review.

We do recognize the point about in-country donor office awareness of PIDG work. A plan for dealing with this is explained below.

Suggested actions

The PMU proposes to recruit a donor liaison officer with the target outcome of improving the extent to which PIDG activities support donor policy priorities. A central element of the job description will be to raise awareness among all PIDG donors' in country representatives of our activities. This will include reporting of PIDG project prospects to donor officers and of donor offices' leads back to relevant PIDG facilities, as well as, in appropriate cases, setting up proactive coordinated programmes to source and process opportunities within the broader networks of the PIDG donors and facilities. The donor liaison officer will also be tasked with co-ordinating with developing PIDG's partnerships with CSO's and developing country governments.

5. *Disclosure policy not yet fully developed. More information could be made available on websites.*

We are very aware that one of DFID's new priorities is to improve transparency in every aspect of the UK aid effort. We fully support this and pledge to improve our performance. Achieving transparency is a process and, while much recent progress has been made, we accept that we have a lot further to go.

Suggested actions

A PIDG Code of Conduct is being adopted as a result of the current Review of Risk and Governance. One of the nine elements of the draft code is a commitment by the Facilities and the PMU to the fullest achievable transparency. When adopted, this will be mandatory on all parts of PIDG to incorporate into their IPOPPs and this will be constrained in some cases by the project documentation with private sector project developers and service providers to the PIDG, who may require protection of commercially sensitive information which if released could put them at a competitive disadvantage.

Transparency is achieved not only by sets of rules and procedures, but by culture and attitudes. It's one of the matters on which we need PIDG members to make clear their policy requirements to Facility Chairmen, board members and management teams. The extent to which the transparency culture is embraced in practice will then be a factor included in initial selection of candidates for these roles, and the annual assessments of their performance.

Third, as also described below, the PIDG website is being redesigned to allow easier and more comprehensive navigation and downloads of all material documents (policies and procedures, progress reviews, strategy studies, contractual information and operating information).

6. *Little proactive effort made to bring information to potentially interested parties.*

The point made is that PIDG has not taken its story to a wide enough audience. This is correct; the PIDG members decided that, as an essentially experimental set of interventions, PIDG should wait to see whether the experiments being undertaken were successful before widely publicizing them.

Today, it is clear that much of what has been done has been well conceived, effectively executed and represents a valid and original approach to increasing the rate of

investment in infrastructure by the private sector in poor countries. It is therefore time, as the Multilateral Aid Review has pointed out, to raise the profile of the PIDG.

Suggested actions

An active communications strategy is being developed as part of the overall re-examination of PIDG strategy. This will be discussed with PIDG members at the next Governing Council meeting, in Berlin in May 2011. Even before this is done, there are two specific measures being adopted to ensure that the PIDG story is more widely known within the development community.

First, the 2010 Annual Report is being prepared as our flagship external communications document. In contrast with previous years, it sets out explicitly to show how in its structure and culture, the PIDG is distinctive as a development organization. The document will also show how these differences translate into the results we achieve. It will be given a broader distribution to potentially interested parties than in previous years.

Second, we are revising the PIDG website to achieve similar results. We have received feedback that the site is somewhat old fashioned and that it is difficult to retrieve documents of interest from it. Both these issues are being addressed. The new PIDG website is also being configured to allow rapid implementation of new transparency initiatives (see above) as soon as they are adopted.

The donor liaison officer referred to above will play an active part in implementing the communications strategy.

Capacity for positive change

7. Protracted negotiations for fund manager for two facilities. Slow action on gender and transparency.

We have been disappointed ourselves about length of time the fund manager renegotiations for EAIF and GuarantCo have taken. In mitigation we would point out that the Boards of the two companies, supported by the PMU, initially informed the donors fully and proposed a bringing the FMFM team in house or a re-tender. The donors were concerned to avoid disruption and discontinuity and explicitly asked for a cautious approach to be taken.

Suggested actions

The gender and transparency issues are discussed in earlier paragraphs of this memorandum. The only way we can in practice respond, having been slow in the past, is to take purposeful action now and in the future. The actions we propose on these two issues are shown above.

In renegotiating the two fund management contracts, the patient, measured and risk averse approach the companies' boards and their advisers have followed, at the donors request, has delivered substantial savings (in the form of reduced fees and termination payments) while maintaining stability and continuing uninterrupted delivery of results in the businesses. It is hoped that the process of moving from an agreed term sheet to contract will be resolved in the next few weeks.

The Boards and the PMU believe that the delay has been worth incurring in return for the outcome of the negotiations. One measure we are introducing, as a result of the Review of Governance and Risk, which may help achieve a consensus view on this question, is the independent evaluation of the performance of the Boards and of individual Board members, including the Chairmen.

More generally, in order to preserve the PIDG's capacity for positive change, the Review of Governance and Risk recommends that the organization continues to apply a

governance regime based on principles rather than rules. It also suggests that to maintain flexibility and agility, the PIDG should consider how to stay 'light' and not extend itself to a number of members or facilities which would require extensive bureaucratic structures to control. These are matters to be considered in depth in the forthcoming Strategy Review.

8. *Increased risk as PIDG facilities explore scaling up and new frontiers.*

This is the most difficult comment in the Multilateral Aid Review to respond to. We believe that it is the function of PIDG to take commercial risk in pursuit of donor priorities comprising a range of both financial and development outcome targets. Achieving an appropriate level of risk, neither too great nor too small, to maximize delivery of outcomes in new ways in evolving markets, is always going to be a matter of judgment and, to some extent, trial and error.

It follows from our method of using private sector contractors that there will be performance risks to the delivery of donor development objectives, and of missing financial targets through poor decisions. But we also believe we have evolved a responsive and effective system of oversight, control and strategy adjustment in response to changes in the market.

Suggested actions

Getting the balance right between risk control and allowing creativity and ambition to achieve results, requires a vigilant and responsive approach. We propose to continue the candid discussions and debate among PIDG members and with the Boards of the facilities on strategy, emphasizing the need to address the question of risk, and in particular the balance between risk, financial return and development impact. We have also tasked the Boards with revisiting their strategies to address this balance and to make recommendations on the financial targets that they should be asked to adopt. The Boards are also reviewing as part of their strategic review processes the potential for scale up of the facilities, the developmental return of scaling up, and the appropriate strategy to adopt.

Once targets for the next period of PIDG's evolution and growth have been set, vigilance will come from our monitoring and results reporting systems, and responsiveness from regular independent evaluations of how each unit, and the overall organization, is delivering against its mandate. As described above, we will work for full transparency of reporting, so all interested parties can see how we are doing.

Flexibility in adjusting to changing market conditions and results requires that we have the right people throughout (members' representatives – especially the Chair, PMU staff, facility Chairs and Board members, and management teams) all attuned to the PIDG culture. We are ensuring that the performance of Chairs and Board members will regularly be evaluated for the first time, in addition to the evaluation of management teams already carried out.

To understand and monitor risks, we already have emphasized to the Boards and management of the PIDG companies, their duty in accordance with current business best practice, to review and manage risk. In addition, we will shortly be setting out a code of conduct for the PIDG, together with procedures to monitor and report adherence as well as taking action to remedy any breaches.

We will welcome discussion of these ideas with DFID and all our members. As stated in the introduction to this note, our aim is continually to improve our performance and deliver as many of their policy priorities as possible.