HOUSE OF COMMONS

International Development Sub-Committee on the Work of the Independent Commission for Aid Impact

Oral evidence: ICAI's review on DFID's transport and infrastructure investments, HC 1879

Wednesday 13 February 2019

Ordered by the House of Commons to be published on 13 February 2019.

Watch the meeting

Members present: Paul Scully (Chair); Richard Burden; Chris Law; Mr Ivan Lewis; Stephen Twigg.

Questions 1 - 37

Witnesses

I: Tina Fahm, Lead Commissioner, Independent Commission for Aid Impact; Mark Watson, Team Leader, Independent Commission for Aid Impact; Rachel Turner, Director for Economic Development, Department for International Development; Nicholas Waddell, Acting Head of Growth and Resilience Department, Department for International Development.

Examination of Witnesses

Witnesses: Tina Fahm, Mark Watson, Rachel Turner and Nicholas Waddell.

Q1 **Chair:** Welcome, everybody. Thanks very much for coming in. As usual, we have a set of questions for you, and hopefully we will get to cover the whole gamut over our time. If you have any opening statements, keep them brief. If, at the end, there is stuff we have not covered that you want to raise, I am sure we can do it then.

If I may, I will start with you, Tina, and, as usual, go through the methodology. The review used a "purposive sampling approach", as you described it, to identify a sample of 13 bilateral programmes. How representative is the sample of DFID's entire transport and urban infrastructure portfolio?

Tina Fahm: By way of the briefest of introductions, I am pleased to say that this review builds on previous ICAI reviews, such as those on inclusive growth, governance, procurement and value for money. Those themes will recur as we give evidence today. We are minded that the IDC produced a report on infrastructure in 2011, and that report informed our methodology. This is the first for ICAI, and in doing it we selected a sample of 13 bilateral programmes. In total value, that was £1.46 billion, and 37% of DFID's programming. By expenditure, 35% was attributed to transport, 5% to urban infrastructure, and 60% across the sector.

As part of the wider methodology, it is our practice to undertake a strategic review, which we did—a literature review. We also undertook two country case study visits. We selected Uganda and Pakistan. The reason for that is that, regionally, those are the two significant areas of expenditure. We also visited Nairobi, where we met with officials from the World Bank, the African Development Bank and other key stakeholders.

Q2 **Chair:** Thank you very much. If I can turn to DFID, Rachel, can I ask why the programmes are focused specifically on growth, seemingly ignoring the needs of women, people with disabilities and other marginalised groups?

Rachel Turner: I am going to ask Nicholas Waddell, if that is okay with you.

Chair: Of course, yes.

Rachel Turner: Nicholas leads our growth department and was personally responsible for a lot of the shaping of the economic development strategy.

Nicholas Waddell: Our commitment to inclusion is absolutely front and centre of our entire approach to economic development. You see that in the economic development strategy that Rachel mentioned, whereby our concern with economic growth is not growth as an end in itself, but very specifically inclusive growth, of the kind that spreads benefits right across society and reaches marginalised groups, and that upholds our commitment to the economic empowerment of women, girls and other groups in the population. The top-line commitment is there in our strategy. It is also reflected in the inclusive data charter action plan that we are signed up to, and you see it very much at the country level in the templates and approaches we use to country diagnostics, whereby inclusion is integrated throughout.

I would like to make a distinction between some of the programmes identified in the report, such as the Nepal roads programme, which are quite targeted at particular groups of the population—indeed, the report praised our geographical focus, whereby we were targeting disadvantaged areas—and our overall commitment to increasing mass numbers of jobs that raise the incomes of the poorest, which help transform whole economies and populations so that those benefits are broadly felt. While the report identified some concerns in this area, our commitment to growth and economic transformation, combined with our more targeted approach for particular regions and groups of populations, shows that we are committed to an inclusive approach that brings the poorest up.

Q3 **Chair:** Is there any more that you can expand on to demonstrate that you are helping to ensure no one is left behind in future infrastructure investment projects themselves?

Nicholas Waddell: Absolutely, yes. We do this at a number of levels: for a start, at the level of the training and resources available to our infrastructure advisers and our cadres working on these issues. For example, in the last 12 months, 75% of our advisers have had training on strengthening inclusion in the work that they do. We have created a particular facility called ICED, which works directly with country offices to make sure that inclusion considerations are mainstreamed in programmes. That is a very country-specific approach. It also works with the Private Infrastructure Development Group and CDC.

We have a wider focus in our programme design on inclusion: inclusion in access, asking basic questions about who will benefit and about the price and the affordability for different groups and segments of the population. We have also carried forward our commitment to inclusion on the global stage, making sure, for example, that vital indicators, such as whether populations have access to an all-weather road within two kilometres, are part of the entire SDG approach, and monitoring implementation on the SDGs. This speaks directly to the most disadvantaged having improved access to infrastructure. That commitment to inclusion shines through across that layer, from the top-level strategy to the guidance and the training we make available to our advisers.

Q4 **Chair:** You spoke about 75% of advisers. Was that just because of time, or is there any reason that the other 25% have not been trained?

Nicholas Waddell: It is being rolled out across the cadre.

Q5 **Chair:** Tina, do you have anything to feed back on?

Tina Fahm: Yes. We welcome DFID's response, but the fact remains that, from our sample of 13 programmes, none had a principal focus on disability. This is a point that we made in our disability review, which came out before this Committee. The assurances are welcomed, but it is really about taking a systemic view to inclusion so it does not fall off the edge when other priorities arise. We made this point in our inclusive growth review, if you recall, regarding gender. Yes, it is very welcome from DFID, but we really want to see a commitment to embedding this in its processes.

Q6 **Chair:** Is there anything that you want to come back on, Nicholas?

Nicholas Waddell: If I may, yes. This is an important issue to raise. Of course, our Secretary of State is personally incredibly committed to the disability agenda. You have seen that at the overall disability summit. Recent progress that did not make it into the report, for example, is the way in which we have been working with Treasury for the G20's infrastructure group so that the global principles around quality infrastructure are not just about the technical strength of infrastructure work, but include disability-related considerations. That is something that will be enshrined in those principles going forward.

Tina is quite right that not all programmes will have a disability focus, and indeed our commitment to disability means that these considerations will be folded through as newer programmes are designed and come on stream. But we can point, for example, to progress in Bangladesh, where the community infrastructure investments are being designed on the principles of universal accessibility. In Malawi, our support to education has meant that disabled people are able to access facilities in 48 different sites across the country. There is definitely further to go, but the commitment from DFID is definitely present, both in individual programmes as they go forward, and at the global and strategic level.

Q7 **Chair:** Nicholas, you can take examples from around the world, but it is a worry that Tina has taken 13 examples and none of them have got a disability focus.

Nicholas Waddell: Of the examples Tina mentioned, there were 13 surveyed, of which two-thirds had a marker that disability was a significant dimension of the programmes. None of them had an exclusive disability focus, but two-thirds of them picked up disability as a significant element of the programme. You can tell the story different ways.

Chris Law: Just to clear that up, it is four out of 13, actually.

Nicholas Waddell: Forgive me.

Tina Fahm: Just to clarify, I said "principal". Really, given the 2015 infrastructure strategy and the commitment made in that to vulnerable communities, inclusion should be front and centre, because this is what DFID is saying. This is what it has committed to.

Q8 **Mr Lewis:** Good morning. My questions are to Rachel and Nicholas. Why does DFID not play a more active role in ensuring that economic investment partners have adequate safeguarding systems in place to protect communities and the environment from harm? What is DFID doing to identify poor safeguarding practices?

Rachel Turner: The report referred specifically to the World Bank's approach to safeguarding, and recommended that we step up, everywhere we work, our monitoring of how the World Bank applies safeguarding. We have worked very effectively to update the World Bank's economic, environmental and social safeguards. It was a long process of consultation with NGOs. You have spoken about this reform before. We worked to shape the reform of those safeguards, to specifically update them, including on aspects of road safety that we are going to come to later, but also on a wider range of approaches to safeguarding poor communities and vulnerable groups, and to increase the transparency in the way those safeguards are implemented.

We accept that, when we are providing funding through trust funds, it is particularly important that our teams on the ground are aware of and understand the capability of Governments to implement those safeguards. It is important to understand that, in the way the system works, the receiving Government has to take responsibility for implementing the safeguards. The recommendation in the report that we should step up how we engage when we are putting funding through safeguards is one that we found useful. We have now put that into action. As a member of the World Bank Group, through the board of the World Bank, we continue to put significant store on the way the whole World Bank Group is applying and adhering to the new safeguards policy. We remain a very active and engaged member of the World Bank Group as those safeguards are rolled out and applied.

Tina Fahm: We considered this a very important issue in our report, because if you look at safeguarding through the lens of infrastructure developments, it is about the compulsory acquisition of land from poor communities. This is quite complex. It is also about having adequate safeguards on construction sites, regarding hazards. Finally, it is about ensuring that vulnerable people are not sexually exploited as they engage on construction sites. This is really important. We recognise the achievements of DFID on the global stage in working with the likes of the World Bank and driving change, but the issues we found in conducting this review were local to DFID.

For example, there were two specific examples in our report, one from Uganda, the other from Pakistan. The example from Pakistan was just outside of Islamabad, not far from DFID's own offices. It is important that DFID needs to be addressing this at a global and a local level. May I invite Mark Watson, the team leader, to perhaps explain the example that we have found in Pakistan?

Mark Watson: I will mention Uganda as well. Thank you very much indeed. In Uganda, DFID has been supporting the sector for quite a few years. A road authority was established in 2008, and a number of donors including the World Bank and multilaterals have channelled funds through that agency. It is called UNRA. A scandal occurred and entered the public domain. The World Bank ended up closing a project. We found that safeguarding had been the responsibility of this agency, and it had never had the capability to implement those safeguarding responsibilities. It had a staff of two, one of whom paid compensation, while the other was responsible for all social safeguarding across the entire country. Therefore, the capability was not there. We need to reflect on this. DFID is doing excellent work centrally, improving the World Bank and other safeguard standards, but it is all around delivery, and we have to get that delivery right.

Q9 **Mr Lewis:** There is a balance between becoming risk averse and ensuring that you take reasonable steps to protect people and, frankly, to protect DFID's reputation, because, if there were to be a horrendous incident or tragedy resulting from this, DFID would find itself in deep difficulties. I am slightly worried about the first two questions and, to be honest, the very defensive response we have had so far. If I am honest, there seems to be quite a wide difference between DFID saying, "More or less, we are doing fine. Everything is okay. Maybe we could do a bit better" and ICAI saying, "There are some fundamental issues to address here." I wonder how you would respond to that, because that is how it feels. There does not seem to be much of a willingness to say, "Yes, there is actually quite a lot that we need to do differently."

Nicholas Waddell: We take very seriously the concerns that ICAI has raised in this report. It is worth pointing out that the overall report has come out as green/amber, and that ICAI has identified significant positive elements. This is absolutely not to be defensive; this is a report that we welcome and that we find helpful. ICAI concluded that the strategic approach DFID is taking is positive; that the line of sight between our overall objectives and the bulk of our programmes on the ground is there; that the way we work with our multilateral partners to influence them and shape their commitments through our distinct niche and DFID's comparative advantage was strong; and that our research portfolio in these areas was very strong. There is a huge amount of positive observation, none of which is to take away from the challenges that have been identified. We have accepted the bulk of the recommendations in our response, and we take the findings in a constructive spirit. The overall report comes out with a number of positive areas, none of which are to detract from the concerns that Tina has been speaking to today.

Tina Fahm: If I may just clarify to the Committee, of the four recommendations we made, DFID have come back and accepted three and partially accepted one. In conducting the review, DFID was very co-operative, and it was a very positive environment, for which we are grateful to the DFID team.

Rachel Turner: The overall approach that we see in the international community is a continuing evolution and improvement of understanding of exactly how to design infrastructure, how to tackle the issues about affordability of infrastructure, how to specifically take account of vulnerable groups in the consultation around infrastructure, how they are involved in building infrastructure, and how they access and benefit from delivery. There is good evidence that ICAI has put on the table about how many of our facilities are improving and developing how they consult with communities and design for them.

I would commend to you the strategy for the Private Infrastructure Development Group that was made public just in the last two weeks. You can see specifically how they have built a new gender strategy based on what they have learnt over the last few years. There are clear commitments to the standards on safeguarding that we expect, following the safeguarding issues in the international community over the last year, and to disability. The approach we have built to understand affordability issues and respond to them is also very important. In the Private Infrastructure Development Group, for example, we have a viability gap fund that has been specifically set up to enable us to put grant finance alongside finance from the private sector, to ensure that end prices for consumers deliver affordability expectations. We are continuing to innovate and respond. I do feel confident in saying that we have a huge appetite for learning in this space, are continuing to evolve, and are continuing to tackle inclusion in the way we design our infrastructure.

Q10 **Richard Burden:** Rachel, you said earlier that we were going to move on to road safety. I would like to move us on to that now, please. Clearly, it is covered by the SDGs. As a killer, deaths and serious injuries on roads are right up there with the three diseases in terms of numbers. Some 90% of road traffic fatalities take place in low and middle-income countries, even though they only have about 54% of motor vehicles operating in those countries.

As a first question, do you think that DFID, in its infrastructure work and in funding infrastructure projects, takes enough account of road safety issues? Perhaps predicting that you are going to say yes to that, could you give a few specifics, in particular on how you measure the safety of roads that are funded, directly or indirectly, through DFID projects? Do you follow the UN performance target that "all new roads achieve technical standards for all road users that take into account road safety"?

Rachel Turner: The approach we have taken to road safety, which has been commended by the reviewers, has been, first, to raise the profile of this issue internationally. We have worked very closely with the World Bank in doing that. We have been a core supporter of the World Bank's global road safety facility, which has been specifically involved in updating the approach to road safety across the international system, across the World Bank Group itself, but more broadly across the other multilateral development banks, to begin to share and embed learning about what works in terms of road safety in road design.

Here are two specific examples where we have been involved in road safety. In Pakistan, the Pakistan Economic Corridors Programme, which the review covered, has specifically supported the Government of Pakistan's road safety working group in the formulation of a new road safety strategy. That has built a range of issues about the way roads are designed and about targeting understanding and awareness in drivers. It has made sure that it is very clear in Pakistan who is accountable for road safety. That has driven forward the overarching governance of the issue, which I know is something the report tackles separately, in terms of making sure we get a grip on the institutional drivers.

In Nepal, which has one of the highest mortality rates associated with road accidents in the world—Nepal is 40 times more dangerous than the UK—DFID Nepal has provided support to improve the safety of both high-volume and rural, low-volume roads. For example, in Nepal, we supported the building of over 70 kilometres of steel crash barriers along 700 kilometres of extremely dangerous roads. Learning from our support for that and our understanding of the impact it has had on road safety, the Nepal Government have now started to roll out their own approach to road safety on major roads across the country, with support from the World Bank and the Asian Development Bank.

In terms of how we measure road safety, I do not have that precise information in front of me. I would have to come back to you on that. I am aware that the Global Road Safety Facility is working directly with many, many Governments to make sure that their approach to gathering and responding to data is sharing lessons between them, but also improving over time.

Q11 **Richard Burden:** ICAI noted that DFID has had an influence on the Global Road Safety Facility in terms of policy. I suppose what I am getting at is how that actually impacts in terms of projects on the ground. You have given two examples there, of Pakistan and Nepal, where there has been an impact. You said on the Nepal example that you have learnt from the impact of putting in those road safety barriers in Nepal. What was that impact?

Rachel Turner: I do not have the exact figures for the reduction in death rates in Nepal in front of me. I will have to provide those to you separately. I can say that the work we have done with the Global Road Safety Facility allowed us to embed road safety specifically in the new World Bank safeguards, which will now require all World Bank projects in the transport sector to specifically address the current road safety situation, and to make recommendations for how projects will address road safety and death risk in transport design. We feel very pleased that we have managed to secure that wider systemic impact through that fairly small, targeted initiative. I will have to come back to you with the specific details on the actual changes to mortality rates in those examples.

Q12 **Richard Burden:** It would be helpful if you could do that. The other thing you said that you could come back to us on is how the ambitions in the Global Road Safety Facility, DFID and the UN's overall policy to raise the profile of road safety systematically translate through into what you do when designing and approving projects, and how that is then built into learning. It would be really useful to know if there is a systematic approach here, and how measurement is done.

Could we perhaps move on to another aspect of safety relating to road traffic? About 7 million people worldwide die prematurely as a result of air pollution. How does that feature in your assessment of projects, what to fund and how to fund them. Is DFID's approach on that trying to incentivise or encourage one way or another, whether it be changes in approaches to transport, making it easier to walk, cycle and so on on dangerous roads, or indeed trying to encourage a modal shift to lower-emission or zero-emission transport where motor vehicles are used?

Nicholas Waddell: You are absolutely right. Air pollution is a growing challenge, and we are responding in several ways. First, there is an acute dearth of data in this area, so we are using our research portfolio to look specifically at different regions. One example I would cite is the east Africa research hub that is working with the University of Birmingham to look specifically at what these challenges mean in Nairobi, in Dar es Salaam and in some of the major, fast-growing cities in east Africa.

Through our research programme, we have a sustainable manufacturing and environmental pollution programme that looks at how manufacturing processes can be less polluting. That is one area through our research channel, but of course the bigger question that you hint at is how commitment to cleaner, renewable energy can translate into specific programmes and influence an overall shift to make an entire road network factor in these problems more comprehensively. That is probably the shift that we need to start seeing now, and which DFID will need to continue to push, and arguably push more on, so that we get the step change that you have described. Those would be the targeted programmes to strengthen the data in particular geographies where we know this is a problem. That wider step change that you describe is probably where we need to work with our partners to push further.

Tina Fahm: As the Committee is aware, ICAI's remit is to ensure value for money in ODA spend. Going back to road safety, we observed that the investment in research to bring about the Global Road Safety Facility and the support with the World Bank was a relatively small investment, which really did result in significant impact. We welcomed DFID's investment and its role in influencing on that stage, but as you have rightly pointed out, the work is now at country level, and DFID's offices are well placed to drive those changes.

Q13 **Richard Burden:** Do you think that that investment—as you say, it is quite small so far, but it has had quite an impact at policy level—needs to be scaled up if it is going to translate through into more effective and extensive action on the ground in terms of specific projects in specific countries?

Tina Fahm: Absolutely, because it is about working with national Governments. But because we are talking about infrastructure, it is also about contractors, which have different appetites. It is about a whole transformation in attitudes in these countries. DFID's country offices are well placed to facilitate that change.

Q14 **Stephen Twigg:** Can I make an observation on that before I ask my question? Road safety is something that we will want to return to as a full Committee, particularly in the context of the UK's voluntary national review in relation to the sustainable development goals. It has perhaps not had the attention in the domestic debate on global goals that it deserves. There are some positive lessons from our own experience in this country on reducing the number of deaths on the roads, although of course that position has stopped improving in recent years.

My question is about value for money and programme selection. In the review, ICAI argues that the Department's approach on value-for-money assessments of potential infrastructure investments varies considerably in depth, approach and quality. My first question is to Rachel and Nicholas. Do you accept that and, in the light of that, what is DFID doing to improve both quality and transparency of its value-for-money assessments?

Rachel Turner: The specific recommendation is particularly around the economic appraisal. Economic appraisal in this space—the infrastructure space and the transport space—is complex. Our view is that understanding the impacts of infrastructure and transport work at the level of the local and the national economy is extremely important. Look at the latest work on infrastructure, particularly in cities, by Paul Collier, for example. Collier and Venables have written a great deal on how to capture the benefits of connectivity and agglomeration effects. These are all very, very important challenges to how we do value-for-money assessments and our economic assessments in this space.

I am saying that I accept it is a complex area, particularly to capture the wider benefits of infrastructure and urban work. We have a very strong team, and our chief economist's team reviews all of our larger programmes. I think you know that. All of our programmes over £40 million go through very detailed scrutiny as to the quality of the economic appraisal. We are building the capability of our economists to begin to look at the literature on agglomeration and connectivity, and to begin to bring those benefits specifically to bear as we move this portfolio forward.

Tina Fahm: Notwithstanding the complexity of the infrastructure portfolio, we have on several occasions reiterated the need for recognition of four Es, or four elements of value for money: economy, efficiency, effectiveness and equity. It is absolutely right that, in drawing up business cases, economy will feature, because we need to ensure that there is an economic return on the investment. We do not understand why it is difficult to consider how efficiently processes are being rolled out, whether they are being effective, and the impact they are making on real people's lives. We have just talked about safeguarding and inclusion. If DFID operated under that lens, we would be confident that there is a true value-for-money approach. After all, we are talking about taxpayers' money.

Q15 **Stephen Twigg:** Absolutely, and that is the heart of this. Often those things that are criticised in public debate are the ones that have failed those tests of effectiveness, efficiency and equity. Rachel, what is the Department's view on that?

Rachel Turner: My view here is that making the right choice of infrastructure projects is the first stage. That is an incredibly difficult thing to do in any country, particularly through a tick-box approach of saying, "As long as we have ticked every one of those boxes, we are clear we have made the right choice."

How we approach this issue, first, is through the diagnostics we do at country level. We look specifically at the set of objectives that we are trying to achieve in partnership with the country. We have spoken to you before about those diagnostics; they are good diagnostics, and they help us understand specifically what the barriers to growth are, whether the key challenge is to integrate people from more remote communities and connect them to cities, or whether the specific priority is to increase connectivity within a city. There is a range of really important choices, right at the beginning of this process, in choosing the right project. That is difficult, and the report itself flags this sector as being one where there are governance challenges.

We know from this country that making the right choices about infrastructure is really hard. We are very, very engaged with that. There are many places where we are working at the level of the central Government on their approach to prioritising infrastructure and on their approach to measuring and being transparent about cost.

Something the report did very helpfully was flag up the benefits of the work we have done on transparency at the cost level. The CrossRoads project in Uganda specifically responded to our previous analysis that it was costing more to build roads in Uganda than in other countries in the region. We analysed that, and that specifically took us to a focus on roads in Uganda. Some of these choices were not just about what you do in a country. The fact that we chose to work on roads in Uganda came out of the fact that we were tracking the unit cost of road delivery in east Africa. It was a red flag to us. Why is it costing more per kilometre?

Similarly, in Ethiopia, we have specifically helped and advised the Ethiopians on their engagement with big infrastructure projects that the Chinese are funding. Again, we were able to specifically help the Ethiopians benchmark the unit cost of railway work compared with railway work in Kenya. That allowed us to engage with Ethiopia.

I will finish on this point. Again in Ethiopia, we have been working very closely with the Government to benchmark the cost of infrastructure in the industrial parks as an impact. That is a public report, and I would be happy to send that to the Committee. It was a very helpful report, which again looks at the unit costs of building infrastructure parks, and looks at what is driving that cost. It allows us to see that when you have competition in construction, prices are coming down.

I guess my overall response to this is that we do have a very strong story to tell, in a very complex space, about how we are trying to drive concern for value for money in our partner Governments and in the choices we make about where we put our effort and where we invest. That is really key.

Q16 **Stephen Twigg:** I do not think anyone is saying we want a tick-box approach. When we said that, Tina very firmly shook her head. Tina, do you want to respond on that specifically?

Tina Fahm: Notwithstanding what Rachel has said, as I do not want to take up more time on this, any processes or approaches must be able to stand up to independent scrutiny. On this occasion we felt that there was room for improvement.

Nicholas Waddell: I wanted to emphasise the point that our approach to value for money is a dynamic approach that happens not just as an up-front exercise to do a cost-benefit analysis or a particular piece of work, but over the lifetime of the programme. It is a question that we come back to at every stage of our annual reviews. It is a question not just for DFID but that we seek to build into building the right capability in our partner Governments. This is fundamentally about effective public financial management and the crossover to our governance portfolio. It is about asking hard questions about the power, politics and the elite incentives that shape the outcomes from our investments in this sector. It is about drawing on the governance expertise and the expertise of our other cadres.

It is also about specific areas. For example, our funding of the Construction Industry Transparency Initiative has been showing what can be done at the country level in the project preparation phase. That upstream stage will determine a whole heap of outcomes further down. We accept individual pieces of VFM analysis may have varied across different locations, but the overall approach to VFM is actually quite sophisticated and brings in inputs from across DFID’s areas of expertise.

Tina Fahm: It needs to stand up to independent scrutiny.

Q17 **Chris Law:** Turning to programme performance, ICAI concluded that the sample of programmes it looked at show a mixed pattern of performance. I wondered if you accepted that conclusion.

Rachel Turner: We accepted that conclusion to the extent that the sample did include programmes in some very difficult, fragile state contexts that did not deliver what was originally expected of them, partly because of the high risk of that environment—the Afghanistan project for example. It is just factually correct that there was mixed performance. There were projects in the sample that did not deliver to the original expectations of the design. The reasons for those were clearly and very fairly set out by ICAI in the report.

Q18 **Chris Law:** Looking at the length of your programmes, they are typically up to five years, but you have programmes that take eight to 10 years to deliver. Does that present a risk to performance management and the delivery of value for money? If you have a five-year plan, but it takes more years in order to complete it, how do you measure that? Do you measure it over the five-year period or do you take longer? Do you look at the completion of the project at the end? How do you come back to show that it is good value for money?

Nicholas Waddell: Perhaps I can take that in two parts. The first question is about time horizons for change through our programmes. Of course, change in these environments does not adhere to the neat DFID log frames or three to five-year time horizons that many of our programmes follow. We would say that, along the time horizon, as necessary, DFID has the option of doing a cost extension, a no-cost extension or a successor phase to the programme, building in lessons from the initial phase.

There is a suggestion in the report that this might somehow be hampering our ability to work on longer term change agendas. The DFID system allows us to cater for that by either rolling over programmes or having successor phases. Rachel may want to add to that, on your question about how you measure results that may materialise not just within the timeframe of the programme, but for years or longer afterwards.

Rachel Turner: It goes back to the economic appraisal. Nicholas made the point earlier that every one of our annual reviews is required to update the value-for-money assessment. We would definitely expect, particularly if benefits are coming later than originally anticipated, that that would be specifically captured and the overall value for money of the programme reconfirmed at that stage. It is really important that we continue to update the value-for-money judgment of the programme, and not rest on a piece of diagnostic or analysis that was done maybe five or six years before. I think you would find that we do; there has been a big focus across DIFD in making sure that that annual review value-for-money update is done properly and effectively and will take account of delivery.

Q19 **Chris Law:** I wonder if Mark and Tina have some views on these responses.

Tina Fahm: I will respond to that and bring Mark in. We do not accept that any programme delays can be attributed specifically to context. This is the area of programming that you are in. We have found that programmes eventually delivered their output, but a lot of the inefficiency was around ensuring realistic timeframes in the first place and having the right staff in place and the oversight of the programmes as they unfold. We fully accept that, as Rachel has said, this is tough work—building roads in Afghanistan or Nepal in rural areas—and the fast-developing infrastructure landscape makes for significant challenges, but this is about improvements in programme management and programme delivery. I will invite Mark, as team leader, to elaborate.

Mark Watson: Thank you very much. Let me just cite an example, if I may, because that will put some teeth to this. DFID is financing via a World Bank trust fund a climate change programme in Tanzania, which is focused on Dar es Salaam. That is mainly around flood prevention. The reality is that the data there is very limited. It takes time to set up steering committees, et cetera. The governance structure takes time to put in place, because there are many stakeholders. It certainly takes time to consult local populations in these urban and peri-urban areas, many of whom are not well co-ordinated. This links into the inclusivity agenda. The basic design of the programme envisaged that, by year 5, 35 million quid would have been spent, so a very significant amount of money.

With hindsight, when you look at the arrangements that were in place and what needed to be done, this was not realistic. The data was not there. You cannot design flood prevention schemes without some data about how frequent the flooding is. Putting all of this stuff in place takes a long time. As DFID increasingly moves into the urban arena, it is a complex arena. It combines planning, consultation, engineering skills and governance skills, often against a backdrop of changing political landscapes. It is just not that easy. If we are going to achieve value for money, we need to ensure that the scoping of programmes is realistic to start with and that these risks are factored into the design. DFID has many good skills, but too much of our portfolio review suggested problems with execution.

Q20 **Chris Law:** Are there good examples of what DFID has done, which lessons could be learned from and which could be rolled out into other programmes?

Mark Watson: Absolutely. There are some very good nuggets. DFID has a lot of expertise. There has been very innovative work around construction guarantee funds in Uganda. A lot of the work in Pakistan has helped to direct road investment towards the poorest and most fragile places within the country, like Balochistan province. There is a lot of positive stuff that DFID is doing, but this is time and person resource intensive. You cannot do it with a very, very small cadre. It creates false economies. This stuff needs to be managed, and really carefully managed.

Q21 **Chris Law:** As a very last question, why do you think this is happening the way it is? Is it because there is pressure on DFID to get things done in a very short, efficient manner, or so-called efficient manner? What do you think is going on? Why is there such a mismatch?

Mark Watson: DFID may well be able to answer this better, but clearly there are headcount pressures. There are challenges working in a rapidly changing external environment, and the urban context that we have included within this review is particularly difficult. Think about how long it takes to get infrastructure done in the UK.

Rachel Turner: We accept that working in the urban context is particularly difficult. The report recognises that we have set up two central blocks of capability to reinforce our in-house expertise and capability. Both of those have the ability to call down advisory support to bolster this in the specific way that has been discussed. The report welcomes those. The previous report on growth in Africa also welcomed those. Those are now up and running. They are being deployed to bolster our capability to both monitor and steward programmes. We have accepted this recommendation. It was an important recommendation. It is one that we are talking through with our infrastructure advisers, with our economic advisers and with our senior responsible officers across the piece in DFID. As I said, at the same time we are trying to bolster our capability to give us the extra heft to be able to meet the expectations that ICAI has rightly set out for us.

Q22 **Stephen Twigg:** Mark referred to the example of Tanzania, and I wanted to ask more broadly about trust funds, because there are three examples in the review that cause real concern about poor performance. To start with, DFID, what is your response specifically on the Tanzania example?

Nicholas Waddell: At the risk of repeating what Rachel has said, we accept that the Tanzania example was slow to get started. To speak to Chris's question of whether we accept that there will be a mixed performance across different programmes, of course we do. When you look at the portfolio approach that DFID has, you will inevitably identify a programme in a given country where there was an element of optimism bias. We are impatient for change. We want results, and results come slowly. It is very hard to fully predict right up front the exact time horizon for that.

We would be more concerned if DFID had rushed through these processes of consultation and not done the upfront due diligence and preparatory work that we would expect. We would much rather a programme did its homework up front. We have the option of extending the programme if that means then that it gets off the ground more slowly than expected. I am reassured if those processes were done to the standard and quality that is needed, even if that meant the time horizon of the programme or the start date was impacted. Again, we accept the Tanzania recommendations.

The Afghanistan project is also picked up in the report. Here, it was a very challenging environment. The absolute bottom line is that where we felt that funds were sitting, not being disbursed and used for their intended purposes as quickly as we would like, we successfully reclaimed the £26 million in question. We stopped future disbursements. No payments were made after December 15, so the acid test and course correction from a UK taxpayer perspective was met.

Q23 **Stephen Twigg:** What ICAI said about that was that DFID needs to be more realistic about start-up times and the level of oversight needed by DFID staff. What steps is the Department taking to improve oversight, specifically relating to these trust fund situations?

Nicholas Waddell: We may have to follow up with some very specific measures around the two case studies identified here, but I would like to make a comment overall on oversight that builds on something Rachel said. Of course, given headcount pressures, we have a dilemma about where we deploy our advisers and how we best use our capability. In the Infrastructure and Cities for Economic Development programme, we have a facility that works with country offices to do that, but we are also looking at how we can best use our central capacity. This came up in the report as well.

Where DFID previously had a set of centrally managed programmes and a set of bilateral programmes in-country, we are now trying to get a much stronger approach where we might have jointly managed programmes. We can have inputs from the centre. We can manage efficiencies better. We can draw down on central capability for country offices. We have a much more dynamic environment between our central capability, our central programmes and our bilateral programmes, to address the fact that, frankly, we cannot have an energy adviser, cities adviser or urban adviser in every single country. We have to think creatively, and that is what we are doing at the moment. A couple of the flagship programmes cited in the report are doing precisely that.

Q24 **Stephen Twigg:** Is there any response from ICAI to that?

Tina Fahm: There were not many trust funds in our sample, but the examples we have given show that they are not a quick fix. There is a complexity that DFID needs to recognise. Nicholas has touched on that. Even looking wider, the multilateral development banks could also raise their game in ensuring value for money and the way that they engage. It requires greater oversight to ensure the right choices and the right decisions are made.

Q25 **Chair:** DFID, turning to the coherence of the strategy, there was a bit of concern about how the infrastructure investment programmes are aligned with those of its development finance institution, CDC, or other UK aid spending. I wonder if you can say how you believe they are aligned, if you believe they are aligned.

Rachel Turner: Yes. The start of this report is to welcome the specific focus and niche that we have articulated for ourselves in the overarching strategy. That is very much a focus at the policy level, at the advisory level, at the support for Government level. DFID is not, with its bilateral programmes, developing a capability to invest directly in private sector projects for infrastructure. The Private Infrastructure Development Group is specifically targeted at mobilising finance from the private sector into infrastructure projects where private finance is appropriate. We see those two things working very well together.

We have many examples where we are working closely with Governments on their regulatory environment, on their prioritisation approach, and that is creating an environment in which the Private Infrastructure Development Group, for example, can come in to give support. Nigeria is one example. We have a large programme that was not covered in the review—the Nigeria Infrastructure Advisory Facility. We also have a similar programme in Ethiopia—the Ethiopia Infrastructure Advisory Facility—which begins to build the groundwork for stronger Government shaping of opportunities for both the CDC and the Private Infrastructure Development Group to follow up on.

We stay very close to both of those institutions; I know we have discussed both of them here before. We stay very close to the systems that they use. We stay very close to how they assess affordability. They have access to grant financing from us, as I said before. They have the ability to deploy grant finance alongside their investment piece. We stay very close to that. We look at opportunities for how they can best use that grant finance alongside.

We feel that it is working well. We are able to flag issues. With CDC, for example, we have been having important conversations about the lack of investment going into transmission and distribution systems in the energy sector. There is a lot of investment going into renewable energies and independent power plants, IPPs. It is really important that people start to pay attention to what is called the T&T sector. That is something we flagged and we are having a conversation with CDC about it. The challenge in the report—that we do not have a coherent approach to how we work alongside these other facilities—is not really where I feel we are at the moment.

Q26 **Chair:** Tina, you gave some examples.

Tina Fahm: Yes, in our review we did not consider that DFID had ensured coherence alongside other Government Departments. We are talking about a scaled-up CDC. We are talking about the Department for Business, Energy and Industrial Strategy, which invests in carbon developments, but also new funds that have come along like the Prosperity Fund. Having led on GCRF, where DFID has more experience and a larger portfolio in this area, we would say that it is for DFID to take the first step in ensuring that there is that congruence across other Government Departments as the ground changes.

Rachel Turner: This point of collaboration with other Government Departments as they spend ODA in this space is very important. We sit on the advisory structures that govern the Prosperity Fund programmes in infrastructure. The Infrastructure and Projects Authority, from the centre of Government, is also closely involved, including in delivering those. We have, over the last few years, considerably strengthened our working relationship with the IPA, to make sure that it can access our learning and some of our research. Equally, the IPA is doing a good job in helping developing countries understand how best, from the Government side and from the fiscal management side, to plan for infrastructure. We are also learning from that, so this is a two-way thing, rather than DFID telling everybody else across Whitehall how best to do things.

There is some really good learning going on. We have now agreed that one of these facilities Nicholas spoke about, the advisory facility, will be available for other Government Departments when they want to call on some expertise.

Q27 **Chair:** Tina, you still think there is more to do.

Tina Fahm: I think Rachel is speaking very widely. We are focusing on coherence across DFID's infrastructure work.

Rachel Turner: Sorry, I thought you were talking more broadly.

Mark Watson: To make a quick observation, clearly, the spirit is willing, and that is great, but the practicalities look like work in progress. We called into DFID Nairobi. There were various working groups with FCO, et cetera, at country level, but the computer systems do not match up for meetings. There is some quite basic stuff to make all of this happen.

We visited the French bilateral agency, talked to the EU in both Uganda and Kenya, and looked at what some of the other bilaterals and multilaterals were doing—the World Bank and ADB. One sees a very rapidly changing environment. The French are heavily into east Africa now, including in this space—bus rapid transit systems, et cetera. DFID and other UK Government Departments are seeking to collaborate effectively, but it is really work in progress. There is quite a long way to go.

Q28 **Chris Law:** These are quite tough questions today. Is the Private Infrastructure Development Group's claim that it has leveraged £23 for every £1 invested credible? It sounds quite astonishing to me.

Rachel Turner: Yes. They are clear that the £23 includes development finance institutions. It is 17:1 with the private sector. There is a methodology now, which has been rolled out across the multilateral development banks and agreed with the OECD. We are now reporting annually, so if you look at the DFID annual report, we are reporting using those methodologies on the amounts leveraged every year. I would commend that annexe to the annual report to you, so you can see specifically how we have applied that methodology to both the CDC leverage numbers and the private infrastructure leverage numbers.

The point in the report was exactly right: it is really important that everybody is not claiming the same amount of money leveraged, and that there is discipline in how these numbers are reported. We are really pleased that the OECD has put a lot of attention on that. We are also pleased about the multilateral development banks. There is a specific issue for the PIDG, because it does a lot of very early-stage work, right at the beginning of a project, in exactly how it counts the leverage effects from the project initiation and creation. But there is a really good process now, internationally, to lock in and start to use these methodologies.

The PIDG has done some really exciting things in terms of leverage. The work it has done to allow some of the African pension funds and institutional savings to be released for infrastructure investment has had significant volume effects for quite limited financial capability. Because the PIDG has a guarantee facility, these numbers sound large, but we are getting a lot of volume effect through very efficient and nimble guarantee structures, where we are taking some of the currency risk, which allows quite large volumes of finance to be released. The Nigeria example, where we have allowed Nigerian pension fund and institutional savings to be released for infrastructure, is an interesting one, and partly goes to these issues about the volume effect. I am very happy to share that.

Q29 **Chris Law:** So you are confident in the numbers. What work is DFID carrying out with other donors through the OECD to improve definitions of leverage? What are the emerging results coming out of that work?

Rachel Turner: We are part of the working group in the OECD. We are also encouraging the multilateral development banks to pick up the leverage, so we are very much part of that. We are trying particularly to be clear that, when projects are at different stages of development, there is a coherent approach used to articulate and leverage at each stage, so subsequent phases of project development do not get added up one over the other. We are also making sure we track the overall volumes at the macro level of finance, which is particularly important, so that what we look at at the project level is verified at the macro level. We are engaged with that process. It was a good thing that the report flagged that as an important issue.

We can also share a lot of specific successes at the project level, including where the PIDG has been able to invest in projects at an early stage, hold on to that investment for a while and then let it go, in a holding company approach. That has been particularly successful at building confidence in projects and in the private sector.

Q30 **Chris Law:** Mark and Tina, do you have anything you would like to add to the responses?

Tina Fahm: Yes, absolutely. We found that DFID's use of the term "measurement" was at times inconsistent and unconvincing. For the review, that meant we were not able to determine the extent of the claims made. That said, following on from Rachel, we have seen that PIDG has been able to leverage private finance. It is making inroads and having impact in conflict-affected, difficult areas. Yes, we were impressed by some of what we saw. On this subject of leveraging, it was as if all donors were leveraging each other. It was almost impossible to measure the impact of that.

Q31 **Chris Law:** Do you think £23 for every pound spent is a reasonable estimate?

Mark Watson: There are stats and stats. Be a little bit cautious. There is a lot of good work going on. PIDG, et cetera, is working at the front end very often, as Rachel mentions. That is high value-added work, which is excellent. As for whether it is a guaranteed £23, I am not a betting man.

Rachel Turner: From now on, you can track it in our annual report.

Mark Watson: We will do.

Rachel Turner: We are being very transparent about it. We have listened, and I think that was a good response from our point of view.

Q32 **Mr Lewis:** Do you agree with ICAI's conclusion that there is more the Department can do to help partner countries become more sophisticated consumers of infrastructure finance? Also, do you agree with ICAI's conclusion that there is scope for the Department to do more to encourage partner countries to maintain standards in transport infrastructure development?

Rachel Turner: The specific recommendation was around China. The specific point here is that, yes, we definitely agree that the international community should be continuing to build the capability of Governments, particularly African Governments, to manage infrastructure finance from China. The report accurately sets out a whole range of things we are doing, including with our office in Beijing and in partnership with various pieces of the Chinese system in Beijing, to engage with them on their approach and standards. It also sets out the work we are doing with the G20, and with the Global Infrastructure Facility, which is hosted internationally in the World Bank Group, where we have seconded someone.

I will not repeat them, but earlier I spoke about the very good examples of work we have done in Ethiopia. Ethiopia is probably the second biggest recipient of Chinese infrastructure financing after Angola. We have put a lot of effort into working with the Ethiopians on how they have received and managed Chinese infrastructure.

Yes, it is a particularly important issue. The report rightly flags this as something that is important for the whole international community and its partners. I am not sure it is necessarily something that DFID has to take full responsibility for; it is a partnership approach, but it is right that it was flagged. We have some really good examples of the work we are doing, and we will certainly continue to build on them and share lessons. I mentioned before the work on Chinese investment in infrastructure parks. We are rolling that out and sharing it across a number of African Governments.

Your second question was about standards in roads.

Mr Lewis: It was on transport infrastructure.

Rachel Turner: This goes back to the points we made before about research and the work we are doing, particularly to look at what good road design looks like and how that is being rolled out, both through the standard approach to procurement in the multilateral development banks, and in how we are sitting down with road transport authorities to help them think most appropriately about how they design roads. I agree it is very important that the research work is being actively rolled out. There is some really interesting work, for example, on how wide you make the pavement and how important it is to have very wide cycle lanes. There is a whole set of really important issues about road design that are important for us to continue discussing with our partners.

Q33 **Mr Lewis:** In terms of working specifically with China, there are significant risks and challenges for DFID as an organisation. How would you define those risks and challenges?

Rachel Turner: There are a number of risks. It goes back to the risk we were discussing earlier about doing the right projects. Particularly if these projects are associated with debt, it is essential that they make a significant contribution to the overall health, economic stability and growth opportunities of a country. That takes us back to the work we are doing to help developing countries. Our developing country partners prioritise their investment portfolios so that, when they do engage with very important offers of financing from China—financing that can deliver infrastructure and really shift the infrastructure gap in Africa, which will be very important for growth—they have a really strong sense of the infrastructure that matters most for growth and that makes sense for their growth trajectories.

One particular piece is the choice. The second piece is the transparency around the debt. A lot of work is going on across the international system at the moment around debt transparency. It was a theme for the spring meetings of the World Bank and the IMF last year. It continues to be on the agenda of the G20. The new debt sustainability framework from the IMF is ramping up the requirements for transparency across the piece. The transparency piece, the debt piece and the choice piece are really important.

Q34 **Mr Lewis:** Finally on this, in terms of social and environmental standards, how assertive is DFID, in private at least, in discussions with Chinese counterparts about these issues? I understand the difficulty, sometimes, of public advocacy. I was the Minister for our relations with China for a while. They have a pretty positive relationship with us in terms of private debate and discussion. Does DFID even attempt to influence China on things like environmental and social standards?

Rachel Turner: Yes, we do. We are having a very good, strong two-way conversation in the context of the belt and road initiative. Taking us back to the Private Infrastructure Development Group, we and the other donors to the group specifically encouraged the PIDG to reach out to Chinese partners to look at opportunities where we might be able to bring Chinese funding alongside the PIDG, for example. That kind of platform approach is really important. The answer is yes.

Nicholas Waddell: If I may supplement that, the line of questioning, from bilateral programmes, to a question of leveraging, to a question of how we help our partner countries be sophisticated consumers into China, is exactly that story of where development is right now. The leveraging question is fundamental, given the financing gap that donors and partner Governments definitely cannot meet on their own. How do we catalyse that private financing?

Then, to the China question, of course the risks are there. As Rachel outlined, we address those, but there are also incredible opportunities. This links, again, to the UK's comparative advantage. We would not seek to do the kind of thing that China could do, in terms of pure roadbuilding capability, but, if we are in the room and having discussions with them, we can take advantage of what China may bring, and work with them to make sure it has the most positive outcomes for poverty reduction. China's economic development is creating opportunities for Africa. Yes, it carries risks, but if we are in the room with them, talking, we can make sure those opportunities are harnessed.

Tina Fahm: I will come back to you on this. First, in listening to that response, it was quite wide. During our review, we were told by stakeholders that DFID could be playing a stronger role in promoting adherence to standards and safeguards across the sector. We are talking about infrastructure here. We agreed that there is scope for DFID to engage more actively with partner countries, which alludes to the question you asked, to help them become more sophisticated consumers of infrastructure finance.

It is interesting that, in the response to the recommendation we made precisely on this point, DFID partially accepts it and does not respond to that direct recommendation of helping partner countries to become more sophisticated consumers of infrastructure finance. It is important for this Committee that that is on record. We have heard a very wide reply, but essentially the fact is that there are risks, as has been alluded to, and, in this space, there is more that we feel DFID could do.

Q35 **Mr Lewis:** Is there any reason DFID did not respond to that?

Rachel Turner: It is the reason I mentioned. We feel that working with the G20, and China as a member of the G20, working with the Asian Infrastructure Investment Bank and our stake there, working through the platform of the Global Infrastructure Facility and the World Bank, taking a system-wide approach, and bringing China in as a partner through that approach would have more of an effect than merely making this a response about DFID.

We also feel that, in the work we have done in Ethiopia, which was not captured here, and in other places, such as Sierra Leone, where there was a very high-profile cancellation of a Chinese infrastructure project by the Sierra Leonean Government, on which we were very closely involved in advising the Government, we are doing a lot of this. As I said at the beginning, we have a programme with our team in Beijing; DFID has a team in Beijing, who are very closely involved with a range of authorities.

We do not want to give the impression that we do not think this is an important issue. It is an important issue. It is a more important issue than DFID alone can solve. We have tried to prioritise and focus our effort. If you look at where Chinese financing is going, it is very concentrated. It is in Angola and Ethiopia; it is a very concentrated pattern. Therefore, we think a targeted approach is right, rather than general approach. I do not want to give the impression that this is not an important issue; it is, but we feel we have a good answer.

Tina Fahm: In listening to DFID's response, that could have been explained more in the response that we received.

Mark Watson: To comment briefly, a great deal of work is happening in DFID centrally, in China itself and with the new Asian Infrastructure Investment Bank. At country level, the narrative is not that clear at the moment when we talk to country officers of DFID, even in countries where the Chinese are investing quite heavily. They are spreading their interest across an awful lot of countries. We think this is an area where more needs to be done. It is work in progress.

Rachel Turner: We accept that the international community, and DFID as part of that, should do more in this space. I do not want the Committee to be left thinking that we disagree with the importance of this.

Q36 **Mr Lewis:** Where DFID has an incredibly close relationship with a developing country Government because of its aid programme, its development work, et cetera, should DFID not be supporting that Government to make more robust decisions in terms of environmental and social standards, in relation to any country, whether it be China or anybody else? Is it not part of DFID's role to assist and support Governments to make smarter decisions, or protect the interests of their citizens more robustly on a long-term basis?

Rachel Turner: You are right. As for whether that always translates into being able to find a specific project or programme that does that, given that this is also a priority for other partners, we will not necessarily always need to be the people right inside the Infrastructure Ministries doing the hands-on work. Nevertheless, through all of the instruments we have in infrastructure, we have a strong offer and we should certainly be at the table. If the recommendation from ICAI is to improve the way we are communicating that to our country offices, we are happy to accept and act on that.

Q37 **Chair:** This has so much to do with value for money. If you are looking from a UK taxpayer’s point of view, it is pointless spending a lot of money on aid in a particular country that is then racking up a new set of debt, having gone through the debt relief campaign in the 1990s, et cetera.

Mark Watson: To make a quick additional observation, DFID has been engaging very thoroughly, in many countries, with Ministries of Finance. Ultimately, it is Ministries of Finance, rather than Ministries of Infrastructure, that are taking on these debts. Therefore, that is the entry point, and that is probably the way forward in terms of engaging further.

Rachel Turner: I agree with that. You know, Chair, that the Secretary of State last year set up a new department in DFID—a department for public finance and tax. She has, and we have, spoken a lot about the tax side of that, but there is also a public finance piece. Our capability to engage with Ministries of Finance is growing and growing.

Chair: Can I thank you very much, Mark, Tina, Rachel and Nicholas, for a very challenging and interesting discussion? Hopefully it was very productive.