

The Role of Governance & Transparency in DFID's Infrastructure & Urban Programming: Summary of Roundtable Discussion

Introduction

A consensus has emerged around the importance of governance and transparency in delivering infrastructure and services in low income countries. Policy-makers have tended to focus on the challenges of increasing financial investment. However, this new consensus moves beyond that approach in recognising that poor governance and a lack of bankable projects are barriers that must first be overcome to enable investment. This point was captured succinctly during Africa's First Roundtable on Infrastructure Governance, ". . . there's a growing realisation globally and in Africa that if you get the governance aspects right, the finance will follow. Get it wrong and the investment will dry up."¹

It was with this new consensus in mind that in November 2017, ICED and CoST, in association with DFID, convened a roundtable meeting to discuss the role of governance and transparency in DFID's infrastructure and urban programming. The event was attended by DFID advisers and representatives from other parts of government, civil society and the private sector. This note captures the key points made during the discussion. The text below follows the structure of the discussion with comments from participants appearing as bullet points. These points are contextualised with observations that draw from material provided to participants as background reading prior to the event.

Governance was defined for the purposes of the discussion as 'the prioritisation, planning, financing, contracting and delivery of the built assets that are essential for economic growth and human development.' Transparency was defined as 'a governance instrument which aims to provide information to stakeholders, helping to increase public scrutiny and strengthen accountability'.

Problem Analysis

Participants began by considering the question: why is delivering infrastructure so difficult? The answers suggested a combination of factors, some that are common across sectors and others that are unique to infrastructure.

- Procurement systems tend to avoid relying on trust and as a result, mistrust is normalised within contractual relationships, leading to poor communication, increased costs and delays. A good example of an alternative approach was the London Olympic Delivery Authority under

¹ See <https://www.gihub.org/news/africa-roundtable-summary/> accessed 05/12/17.

John Armitt. It invested in building trust through the supply chain and on creating contractual incentives that helped ensure the project was delivered on time and in budget.

- No two construction projects are the same. Each one comprises for example, a unique arrangement of contractual relationships, technical specifications and environmental conditions. The complexity and uncertainty inherent in these arrangements can give rise to mismanagement and inefficiency and be exploited for corrupt purposes.
- Much of the output of construction is hidden, for example steel is often covered in concrete and services buried underground. This makes quality control difficult and creates opportunities to skimp on the quality and/or quantity of materials, and siphon off the money saved.

The discussion included a comparison between oil, gas and mining and public infrastructure and between the experience of the high-income (particularly the UK) and low-income countries.

- The Extractive Industries Transparency Initiative (EITI) and CoST, the Infrastructure Transparency Initiative, have common origins in DFID and to some extent, the latter was launched to build on the success of the former. However, EITI initially focused on a single transaction, the payment of revenues to government by the extractives company. There is no corresponding transaction in infrastructure, which involves a long and complex transaction chain involving multiple stakeholders.
- Infrastructure usually impacts on people's lives more immediately than the extractives. They often live near to power and transport systems for example and depend on them directly in their day-to-day activities. The issues of consultation and citizen engagement are more urgent as a result.
- It is a challenge in the UK is to secure the political buy-in needed for large infrastructure projects, the planning and delivery of which might span changes in government. And where buy-in is secured, it is then necessary to distribute risk optimally between those involved. Managing these processes is difficult in the UK where institutions are strong and the challenges in low-income countries, where institutions are often weak, will be even greater.
- Government capacity to deliver infrastructure in low-income countries is typically very low. This compounds the complexity and uncertainty inherent in the sector and contributes to losses through corruption, mismanagement and inefficiency.
- Strengthening the capacity of governments is a major challenge. Those challenges are particularly acute in fragile and conflict affected (FCAS) states, where DFID is committed to spend 50 per cent of its budget.

The need to strengthen the capacity of government to deliver infrastructure is widely recognised, but recognising the need is not the same as understanding how to do it effectively. It is argued for example that capacity building support has been preoccupied with regulatory capacity, at the expense of other important areas, particularly coordination (see Box 1.). This claim seems borne out to some extent by the experience high-income countries, where there are a growing number of examples of bodies being established to coordinate the delivery of large infrastructure projects (e.g. the Infrastructure Projects Authority in the UK and Infrastructure Australia).

Responses

Infrastructure has always been difficult, but in some respects, it has become even more difficult in recent years because of increasing complexity and uncertainty in the institutions, systems and procedures used in its delivery. This includes for example the emergence of new actors, the

introduction of digital technologies and 'smart infrastructure', public/private financing models and civil society demands for more transparency.

These challenges are difficult, but they are not intractable, as some of the examples discussed help to demonstrate. The discussion began by reflecting on opportunities associated with new technologies.

- Digital technologies have enabled citizens to monitor government actions and strengthen accountability. This has opened new opportunities associated with the 'big' and 'open' data revolutions. However, we need to be cautious about relying on a 'technofix' and should use technology to inform and empower people.
- The Prozorro Public Procurement System² in Ukraine is a good example. It was initiated by civil society and subsequently supported by public and private sectors. Its motto is 'everyone sees everything' and it has built confidence in the public procurement system and improved competition and value for money.
- The Open Contracting Partnership (OCP) and CoST are collaborating to develop an open contracting data standard for infrastructure. It will combine the best features of OCP's 'Open Contracting Data Standard' and CoST's 'Infrastructure Data Standard'. Disclosing data can be difficult, but it is a means to an end rather than an end in itself, and efforts are needed to ensure that disclosed data is used by stakeholders to drive improvements.
- Public Investment Management (PIM) is another important response to governance challenges. PIM is related to broader Public Financial Management (PFM) reforms, but it is applied to reforms aimed specifically at improving outcomes of infrastructure investments.
- In Nigeria, civil society has initiated monitoring of government commitments on universal basic health care. This project now needs to be tracked right through the whole financial flow right down to clinics on the ground. And in Uganda, the Uganda National Roads Authority was supported to overhaul its core functions to improve efficiency and deliver better value for money.
- Examining these issues from a public finance perspective reveals additional challenges. Government budgeting for example is an annual process, which makes financing of complex multi-year infrastructure investments difficult and often results in inadequate provision of operation and maintenance costs.

The discussion moved on to the private sector and how it can help meet governance challenges. Participants were particularly interested PPPs, which have been hailed as an effective way to

Box 1. FOUR GOVERNANCE CAPACITIES

Four aspects of government capacity which are critical for good governance:

Analytical capacity concerns the knowledge and expertise available to inform public policy. It includes the use of policy-related and project-based analytics to inform decision making in the context of complexity and uncertainty.

Coordination capacity is the ability to mediate two things: (1) the need to disperse specialist functions amongst a vast array of individuals, organisations and institutions involved in the delivery of infrastructure and (2) the need to maintain a common purpose amongst those dispersed actors.

Regulatory capacity is about control and oversight. It entails regimes that promote standards, with an apparatus that detects and enforces compliance.

Delivery capacity is analogous to the capacity to 'make things happen' at 'street level'. It requires structures that are sufficiently resourced to give life to policy.

Adapted from [The Governance Report 2016](#) by the Hertie School of Governance

² See <https://prozorro.gov.ua/en> accessed 08/12/17.

mobilise private investment, but have also been the subject of criticism for being opaque and not delivering value for money in the long-term.

- PPPs are the subject of a big push at the political level, intended to help unlock private investment and address development finance shortfalls. However, the experience is mixed and at the technical level, questions remain about the lack of transparency in decision making, high rates of return to private investors and the scale of public liabilities.
- We should be providing advice that goes beyond the promotion of the idea of PPPs, to share the experience, both good and bad, that has been built-up in the UK.
- The UK has been very innovative, not only in PPPs, but also in the development of alternative procurement methods and non-adversarial forms of contract that are based on collaborative principles. Is there scope to share this expertise with low-income countries?
- There has been innovation in the UK, but progress has been difficult and it would be very difficult to replicate that experience in settings where institutional capacity and trust between stakeholders is low.

PPPs continue to be controversial and civil society in particular has been vociferous in its criticism of them. Critics however have produced few alternatives to meet the financing gap that PPPs seek to address and they are likely to become more widespread unless and until alternative sources of finance are identified.

Box 2. GOVERNANCE IMPROVEMENTS THAT ENHANCE PERFORMANCE

Acknowledge tensions: Tensions are inherent in infrastructure delivery. They exist primarily between ‘politics’ (i.e. decision making based on political considerations, ‘policy’ (i.e. the translation of those decisions into action) and ‘practice’ (i.e. delivery at ‘street level’). Managing these tensions and the trade-offs that inevitably arise from them is fundamental.

Build Trust: Trust helps to reduce uncertainty, manage risk, improve flexibility and save time and money. The experience of some high-income countries is that procurement strategy and non-adversarial forms of contract can be used move from a ‘blame’ to a ‘problem solving’ culture, but questions remain about the appropriateness of these approaches in low-income countries.

Develop coordination capacity: Infrastructure is often dense in terms of rules, regulations and standards, but light in terms of institutions for effective coordination between the numerous actors involved and between different levels of government. Coordination in this context is about mediating and managing different actors, stakeholders and tasks to succeed in the kind of collective action necessary for complex infrastructure projects.

Improve the evidence base: There is a paucity of systematic data collection by governments, usually resulting from low levels of analytical capacity. Delivery will be more efficient and effective if actors have access to good quality data and sufficient knowledge and expertise for planning, risk management and implementation.

National Plans: Few countries have national infrastructure plans that provide a comprehensive multi-year view of costs, benefits and risks. Some have argued that such plans are top-down and lack local ownership and therefore have little value. Those criticisms can be addressed to some extent through consultation, transparency and the effective use of evidence, and any residual shortcomings should be balanced against the consequences of not having a plan such as the absence of a unifying vision, misallocated funds and the opportunities missed when infrastructure investment is not linked to broader social and economic goals.

Adapted in part from [The Governance Report 2016](#) by the Hertie School of Governance

Implications for DFID

The links between infrastructure and economic growth are well understood. The ICED facility for example, is an expression of DFID's ambition to accelerate and scale up its investment in transformative urban and infrastructure programming to promote resilient and inclusive economic growth. However, more work is needed to ensure that the role of governance in promoting the efficiency and effectiveness of those investments is equally as well understood. Governance and transparency are not just about improving project delivery, they are also about improving efficiency, competitiveness and overall economic performance (Box 2. summarises some key governance improvements that can enhance performance).

Recognising the importance of governance is important, but DFID still needs to consider how to position itself in relation to these challenges. Consideration must also be given to how governance and transparency align with other programme priorities such as economic growth, institutional development, private sector development and conflict and fragility.

- DFID has a new programme on institutional diagnostics. It should consider how a governance lens can help explain what the barriers are to investment. Institutional mapping will also be important, to make sense of the complexity and uncertainty around infrastructure and help determine what the impacts of different investments will be.
- Whilst it's important for DFID to identify its comparative advantage, it also has to appreciate the perspective of its government partners who have to deal with numerous and sometimes competing donor agendas. And even when a government wants to improve governance, it requires a degree of political courage to expose past actions to scrutiny as doing so will inevitably expose problems and generate criticism that could be politically damaging.
- Consideration should be given to how DFID administers finance. It doesn't locate or record its infrastructure investments for example, so it's hard to check how the money is being spent. This is particularly true of spending through multilaterals, including the UN. It has given them the whole remit from procurement to M&E. It needs more leverage in these organisations and be able to hold them to account.

Clearly, understanding the impact of expenditure through multilaterals is a major challenge and the sums involved are considerable. DFID's Infrastructure Policy Framework (2015)³ describes how it invests more than £1 billion per year in infrastructure, split approximately evenly between bilateral spend and imputed spend through core funding to multilateral organisations. The challenges for influencing governance and transparency will vary between multilateral and bilateral spend. The ICED facility has considered how it might provide support to country offices on these issues, but it has not yet identified openings.

- ICED undertook a 'triage' process with DFID country offices to help understand in which areas demand for support was likely. There appeared to be no demand for support with governance. It's not easy to explain this apparent lack of demand, but it does suggest that there is an opportunity to do more. Should we be stimulating that demand? And if so how?
- Part of the problem is that DFID's experience in infrastructure is not well documented or understood. We don't know exactly what DFID is already doing in the governance of infrastructure, so drawing out lessons to improve future practice is difficult.

³ [Sustainable infrastructure for shared prosperity and poverty reduction: A policy framework](#), accessed 11/12/17

- Perhaps consideration should be given to documenting what DFID has done previously. Or if there wasn't appetite for looking backwards, at least putting mechanisms in place to capture what it does in the future would be a substantial improvement.

DFID's Infrastructure Policy Framework also states: "The majority of DFID bilateral spend on infrastructure does not finance the full capital costs of infrastructure construction, but is used catalytically to improve the way infrastructure investment is undertaken through technical or policy reform."⁴ The framework is now three years old and in that period some priorities have shifted, but this approach, assuming it is still valid, provides the policy space needed for a sharper focus on governance and transparency in infrastructure. The discussion in this meeting seems to suggest that there is appetite for it.

Conclusion

Infrastructure is a vital component of efforts to meet the most pressing global challenges such as meeting the SDGs, managing the effects of climate change, achieving food security and delivering inclusive economic growth. It is perhaps surprising then, that we still find it so difficult to manage it efficiently and effectively.

Governance is at the heart of this challenge and the OECD is probably right when it claims that "Infrastructure is mainly a governance challenge."⁵ DFID recognises the importance of this challenge. Its Economic Development Strategy⁶ for example, specifically prioritises infrastructure, governance and transparency. This commitment creates an opportunity for DFID to re-examine its comparative advantage in infrastructure and consider if and how a sharper focus on governance and transparency could be adopted.

Such a re-examination will be of interest not only to Infrastructure advisers, but also to Private Sector Development, Climate and of course Governance advisers. And if the interest in this roundtable is any indication, there will be stakeholders across the institutional spectrum willing to support that effort.

CoST & ICED, December 2017

⁴ Ibid p. 1.

⁵ See <http://www.oecd.org/gov/getting-infrastructure-right.pdf> (p. 1) accessed 12/12/17.

⁶ See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/587374/DFID-Economic-Development-Strategy-2017.pdf accessed 12/12/17.