House of Commons
Committee of Public Accounts

Oversight of the Private Infrastructure Development Group

Thirty-third Report of Session 2014–15

Report, together with the formal minutes relating to the report

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Committee of Public Accounts

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Committee staff

The current staff of the Committee is Sarah Petit (Clerk), Claire Cozens (Committee Specialist), James McQuade (Senior Committee Assistant), Sue Alexander and Jamie Mordue (Committee Assistants) and Janet Coull Trisic (Media Officer).

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Summary

The Department for International Development (the Department) is the main funder of the Private Infrastructure Development Group (PIDG), a multilateral agency which invests in infrastructure projects in developing countries. The Department has not used its position as by far the dominant funder of PIDG to influence the direction of its operations and improve its performance. The Department's oversight of PIDG has not been sufficiently 'hands on'. We are concerned that the Department has insufficient assurance over the integrity of PIDG's investments and the companies with which it works and the Department has not done enough to put a stop to PIDG's wasteful travel policies and poor financial management.

Introduction

The Department believes that infrastructure investment stimulates growth, which is a pre-requisite for cutting poverty. It has identified a need for substantial infrastructure investment in developing countries which cannot be met by public funding and aid alone. PIDG, which invests in infrastructure projects in developing companies, is a multilateral agency founded by the Department and three other donors in 2002. PIDG is now governed by development agencies from eight countries and the World Bank. The Department's total contributions to PIDG, which are expected to reach £860 million by 2017, have represented 70% of PIDG's funding since 2002 and 88% of the funding in the last two years.

Conclusions and Recommendations

1. **Some of PIDG's investments raise questions over its decision making and the Department's oversight.** We recognise that PIDG operates in countries where standards of governance can be challenging. Concerns were raised with us about the complex corporate structures that PIDG's partners have sometimes established, making it difficult to be certain about the ownership of companies and creating a risk that those involved may have criminal connections. When investing, PIDG must be constantly vigilant to mitigate such risks. They must take into account the possible risks to taxpayers' money and to the reputation of its donors from its investments. PIDG's procedures do not require the Department to be notified of all proposed investments, but the Department should do more to make sure PIDG takes a robust approach to the assessment and management of these risks. The Department was not well briefed on the specifics of individual investments which had attracted public concern.

   Recommendation*: The Department must ensure that PIDG has a robust and appropriate approach to due diligence in general and that it receives detailed briefing when concerns are raised about specific investments.*

2. **The Department's weak oversight of PIDG means that some of PIDG's operational decisions are at odds with the Department's objectives**. The Department's aspiration is to support countries to build their tax base to support their own development. However, for historical reasons, some of PIDG's investments pay taxes in Mauritius where the effective rate of tax is below 5%. The Department's oversight of PIDG's governance was not sufficiently strong to prevent board members booking expensive flights.

   Recommendation*: The Department should review its oversight mechanisms for PIDG to make sure it has an appropriate level of visibility of operational matters, and that sound financial controls are in place and that money is appropriately spent.*

3. **The Department's poor oversight of PIDG allowed money to sit idle in a bank account rather than funding projects.** Between January 2012 and February 2014, an

average of £27 million of the Department's money which could have been used to fund projects was left sitting in PIDG's bank accounts managed by SG Hambros. As a consequence, SG Hambros had the opportunity to earn interest on the cash balances it held on PIDG's behalf. At our prompting, the Department has asked SG Hambros to make a donation to a charity working in West Africa on the Ebola virus from any returns it made from the Department's cash holdings.

Recommendation***: The Department should set out what action it has taken to make sure funds it passes to third parties are used promptly. It should report back to the Committee on the outcome of its request for a donation to charity from SG Hambros.***

4. **The Department is not using its position as the dominant funder to drive improvements in PIDG's performance.** In 2012 and 2013, the Department contributed 88% of PIDG's total funding. However, despite being the majority funder, the Department has the same voting rights as other countries which contribute far less. The Department seems unwilling to explore how it might use its dominant position to influence performance. For example, it has plans to extend its funding of PIDG by two years, bringing its potential total contribution to £860 million since 2002. However, the Department has not attached conditions, such as improved governance, to this funding.

Recommendation***: The Department should, when considering increasing its investment in PIDG, identify the operational changes it would like to see alongside the development impact it is looking to secure. The Department should use its 2015 multilateral aid review to develop a proportionate and risk-based approach to how it funds and oversees multilaterals, with a clear focus on whether its level of influence in multilaterals is commensurate with its level of funding, both in absolute terms and relative to other donors.***

5. **Public confidence on spending on overseas aid through PIDG requires robust and independent information on the impacts achieved, which is currently lacking**. There is a reasonable overlap between those countries the Department consider to be a priority and those in which PIDG has invested. However, many of the development impacts claimed by PIDG are accounted for by a small number of projects. For example, one project supporting satellite telecommunications for 50 million people to receive new services accounted for 45% of all additional people served by PIDG's portfolio of projects. While the Department has commissioned some independent evaluation of PIDG's performance, it is too reliant on information from PIDG itself in making judgements about performance.

Recommendation***: The Department should push PIDG to have a robust system to monitor and evaluate impacts using the Department's own expertise to gain assurance over the adequacy of PIDG's approach.***

6. The Department has failed to draw sufficiently on the insight of its country teams to influence the investment decisions PIDG is making. PIDG represents a major investment by the Department. The Department's country teams have in-depth knowledge of some of the countries in which PIDG invests. We heard examples of

how the Department's network of country teams had helped to identify reductions in costs, demonstrating the benefit that might accrue from their involvement in investment decisions. For example, the Department managed to reduce the cost of one of PIDG's projects by almost 60%. However, over half of the Department's country teams were concerned that their activities and those of PIDG were not sufficiently coordinated, creating a potential separation between the Department's and PIDG's priorities.

Recommendation*: In its response to this report, the Department should set out how it will apply the expertise of its country teams to improve the value for money of infrastructure investments made by PIDG and other multilateral bodies.*

1 Improving oversight

1. On the basis of a Report by the Comptroller and Auditor General, we took evidence from the Department for International Development (the Department) and from the Private Infrastructure Development Group (PIDG) on the Department's oversight of PIDG and the steps it is taking to assess and improve its performance.[1]

2. PIDG is a multilateral agency, founded in 2002 by the Department and three other donors. PIDG looks to mobilise private investment in infrastructure projects in developing countries in order to boost growth and combat poverty. PIDG donors commit funds which are invested through investment vehicles ('facilities'). These mobilise flows of capital and expertise for investment in infrastructure. PIDG currently operates through seven 'facilities', each managed by a fund manager, providing a range of services and financial instruments. The United Kingdom is now one of nine donors. Based on current estimates the Department will fund PIDG up to a maximum of £700 million between April 2012 and March 2015. The Department is by far the largest contributor of funding to PIDG. In the period from its creation in 2002 to December 2013, the Department's total funding of £414 million represented 70% of all contributions. That level of contribution increased considerably to 88% for 2012 and 2013.[2]

3. We questioned the Department and the Private Infrastructure Development Group on alleged links between investments funded by PIDG with UK taxpayers' money and companies associated with known criminal fraudsters. Frontier Markets Fund Managers Ltd is the fund manager for two of PIDG's facilities, Emerging Africa Infrastructure Fund and GuarantCo. We asked PIDG whether Frontier Markets Fund Managers Limited had been part owned by Emerging Capital Partners, a company that had links with a convicted fraudster and money launderer, James Ibori.[3] The Department and PIDG told us that at no point had Emerging Capital Partners been involved with the ownership, management or operations of Emerging Africa Infrastructure Fund, GuarantCo or their current fund manager (Frontier Markets Fund Managers Ltd).[4] However, neither PIDG nor the Department provided us with all documentary evidence necessary to support this assertion. PIDG also told us that in March 2014 Emerging Africa Infrastructure Fund approved a €25m investment in a power plant in the Ivory Coast in which Emerging Capital Partners has an interest. It was not clear from the evidence we received whether the Department was aware that Emerging Capital Partners was involved in a project in which Emerging Africa Infrastructure Fund was investing. The Department, along with the other donors, is only required to approve Emerging Africa Infrastructure Fund projects if they contradict the facility's investment policy.[5]

4. We also asked PIDG about the appropriateness of another of its investments given that a connected party was linked to allegations of looting of Nigerian oil revenues. The

1 C&AG's Report *Oversight of the Private Infrastructure Development Group* HC 265 Session 2014–15, 4 July 2014

2 C&AG's Report, paras 1.10, 1.8, 1.25 1.27 and Figures 1 and 2

3 Qq 6, 12, 21, 25, 34; C&AG's Report, Figure 2

4 Written evidence supplied by the Private Infrastructure Development Group, para 1.1.2

5 C&AG's Report, para 2.30; Memorandum from the Private Infrastructure Development Group, paras 1.2.1–1.2.4

investment was made by Emerging Africa Infrastructure Fund in a company that itself invests in power plants in Africa, including a plant in Nigeria, in which Seven Energy has an interest. Seven Energy was named by the former Governor of the Central Bank of Nigeria in a 2014 investigation he conducted into the allegations of looting of Nigerian oil revenues. PIDG told us that in September 2014 Emerging Africa Infrastructure Fund decided to provide up to $30 million to Seven Energy Finance Ltd in support of the gas processing and distribution activities of Seven Energy in Nigeria.[6] Again, it was unclear from the evidence we received whether the Department was aware of this investment.

5. Until July 2014, PIDG's travel policy allowed fully flexible business class tickets to be purchased for flights of more than four hours. The National Audit Office found that between January 2011 and July 2014, PIDG employees booked 15 flights which cost more than £5,000 each, at a total cost in excess of £75,000. Subsequently, PIDG changed its travel policy, although this occurred almost two years after PIDG had reminded its directors of the need to seek permission to book fully flexible tickets. The Department told us that the 'tightening up' of the travel policy in 2012 had not gone as far as it had wanted. Despite being the most significant donor, the Department did not consider itself to be in a position to accelerate the pace at which PIDG's travel policy evolved.[7]

6. Whilst PIDG itself is domiciled in the UK for tax purposes, two of the facilities it funds—Emerging Africa Infrastructure Fund and GuarantCo—are domiciled in Mauritius.[8] The effective rate of tax in Mauritius is below 5%. We asked the Department how it made sure that PIDG conducts itself in a way that is in keeping with the Government's stated objectives and policies on increasing the tax revenues of developing countries to support their own development. PIDG told us that the reasons these facilities were incorporated in Mauritius were historic. At the time, over 13 years ago, Mauritius had been the only location in Africa with adequate governance and effective regulation for the location of public funds.[9] The Department told us that it considered Mauritius a suitable country in which to incorporate the Emerging Africa Infrastructure Fund and GuarantCo because Mauritius had, for example, a relationship with organisations in Eastern and Southern Africa, such as the Southern African Development Community.[10]

7. The Department recognised that it had been too 'hands off' in its oversight of PIDG. The Department told us that it was completing a review of PIDG's governance—its first since 2011. It also told us that its future level of oversight of PIDG would depend, in part, on the positions taken by the new donors, such as Norway, that PIDG was looking to attract.[11]

8. Between January 2012 and February 2014, an average of £27 million of the Department's funding sat in the bank account of the PIDG Trust[12] earning interest at a rate of just

6 Qq 57–60; Memorandum from the Private Infrastructure Development Group, para 3.4.1

7 Qq179, 186, 187; C&AG's report, paragraph 2.19

8 Q 135

9 Memorandum from the Private Infrastructure Development Group, para 4.7

10 Qq 112, 113; C&AG's report, paragraph 2.19.

11 Qq 72, 168, 244; C&AG's report, paragraph 2.2

12 The Trust moves funds between donors and facilities and act as shareholder of the PIDG companies. It acts on behalf of PIDG's governing council.

0.016%.[13] The Department acknowledged that it had been an error to allow money to remain idle in bank accounts, as the funds were not available to either the UK Exchequer or developing countries, at a cost estimated by the National Audit Office to have been between £200,000 and £2 million. We questioned how it had been possible for the Department, PIDG, and the bank (SG Hambros) not to have been aware of this matter for 18 months. The Department noted that it had commissioned a wider review of its multilateral agencies to make sure that the same mistake had not been made elsewhere.[14]

9. Given that SG Hambros are likely to have made a financial return on the money in these accounts we asked the Department to write to SG Hambros to ask it to make a donation to a charity working in regions affected by the Ebola outbreak in West Africa. The Department subsequently wrote to SG Hambros on the lines we requested.[15]

2 Improving performance

10. The United Kingdom's investment in PIDG is considerable. Between March 2012 and March 2015, the Department plans to invest up to £700 million in PIDG. Whilst PIDG is a multilateral agency, made up of nine donors, the United Kingdom is by far the majority donor. For example, between 2002 and December 2013, the Department's contribution to PIDG represented 70% of its contributions. Recent investment has seen that proportion increase to 88%. Furthermore, the United Kingdom is one of only three countries currently adding new funding to PIDG.[16]

11. Despite the Department's significant financial contribution to PIDG, it has the same voting rights as other donors. The Department told us that because PIDG is a 'shared endeavour', with collective decision making, it lacks the level of control it would have over a directly funded organisation. The Department noted that there were pros and cons of seeking to help poor countries by funding multilateral agencies such as PIDG.[17]

12. The Department told us that its 2011 review of multilateral aid had informed its decision to invest further in PIDG. That review had characterised PIDG's approach to transparency and accountability as weak. However, the Department did not make improved governance within PIDG a condition of its increased funding.[18]

13. PIDG is reliant on a large number of positive impacts from a small number of projects, creating a risk that performance could be seriously undermined if one of these projects fails or if the information on the benefits generated is incorrect. One project to support satellite telecommunications in India accounted for 45% of all jobs created across PIDG's portfolio. Some 75% of the jobs PIDG expects relate to its support for an Indian financier of

13 Qq 146; C&AG Report para 3.34

14 Q 144, C&AG Report para 3.35

15 Qq 123, 150, 247

16 Qq 11, 69, 70, 80, and 83; C&AG's report, paras 1.25, 1.27

17 Qq 70, 187, 195

18 Qq 165,170

commercial vehicles. Neither the Department nor PIDG consider risks to the delivery of impact claims across PIDG's portfolio.[19]

14. Given the size of the United Kingdom's contribution to PIDG, the Department needs a regular and independent evaluation of the value generated from its investment. External and independent assurance is currently limited however.[20] The Department is currently over-reliant on information it receives from PIDG to complete its evaluations of PIDG projects—the Department's approach to monitoring projects relies on reports from the organisation in receipt of funding. The International Development Committee observed that the Department's involvement in Trademark South Africa had been characterised, in part, by a 'lack of credible scrutiny' and that it '…relied too much on the success stories given to it by programmes managers.' The Department agreed that it needed to expand its programme of independent evaluations. PIDG is completing its own review of how it can increase the independence of its own evaluations.[21]

15. The Department's investment in PIDG is large and increasing, and focused on economic development, an area of policy the Department is targeting.[22] PIDG does not draw sufficiently on the knowledge accumulated by the Department's country teams to improve its investment decisions. The Department supports a network of country teams which have, amongst other things, an interest in infrastructure. Almost all the country teams surveyed by the National Audit Office identified the absence of adequate infrastructure as a major barrier to economic development. We are aware of examples of the Department's country teams working successfully with PIDG—for example, reducing the costs of one of PIDG's projects by almost 60 per cent.[23]

16. The Department has a formal role in assessing projects for two grants—DevCo (which supports transaction advisory services to governments for projects with private participation) and Technical Assistance Facility (which provides grants for technical assistance or subsidies to support PIDG projects). The National Audit Office reported positively on the impact of the scrutiny from country teams.[24] Considerable gaps exist in the Department's use of country teams. Its formal role does not extend to PIDG's other investments, such as InfraCo Africa. Nor are country teams consulted sufficiently regularly about infrastructure projects—56% of country teams never or rarely considered PIDG as an option when developing business cases for infrastructure projects. The Department told us that, in taking forward its economic development approach, it was looking to identify priorities in each country and how PIDG might contribute to these.[25]

19 Q 206; C&AG's report, paragraphs 3.12 and 3.13

20 Qq 206, 219

21 Qq 65, 206, 213; C&AG's report, para 3.6

22 C&AG's Report, para 14

23 Q 99; C&AG's report, paras 2.31, 2.34

24 C&AG's Report, para 2.31

25 Qq 99, 103; C&AG's Report, paras 2.30, 2.36 and Figure 1

Formal Minutes

Monday 19 January 2015

Members present:

Mrs Margaret Hodge, in the Chair

Mr David Burrowes
Stephen Hammond*
Chris Heaton-Harris
Meg Hillier
Stewart Jackson
Dame Anne McGuire
Austin Mitchell
Stephen Phillips
John Pugh
Nick Smith

Draft Report (Oversight of the Private Infrastructure Development Group), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 16 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Thirty-third Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 21 January at 2.00pm

* *Stephen Hammond was not a Member of the Committee when it took evidence in relation to this Report.*

Witnesses

Wednesday 15 October 2014

Questions

The following witnesses gave evidence. Transcripts can be viewed on the Committee's inquiry page at www.parliament.uk/pac.

Mark Lowcock, Permanent Secretary, Department for International Development; **David Kennedy,** DG Economic Development, Department for International Development; and **Philippe Valahu**, Executive Director, Programme Management Unit, Private Infrastructure Development Group Q1–247

Published written evidence

The following written evidence was received and can be viewed on the Committee's inquiry web page at www.parliament.uk/pac. PID numbers are generated by the evidence processing system and so may not be complete.

1 Department For International Development (PID0002)

2 Private Infrastructure Development Group (PID0003)

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

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