EVALUATION OF THE TECHNICAL ASSISTANCE FACILITY (TAF)

EXECUTIVE SUMMARY

Report prepared for:

THE PRIVATE INFRASTRUCTURE DEVELOPMENT GROUP

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EXECUTIVE SUMMARY

Cambridge Economic Policy Associates (CEPA) was commissioned by the Private Infrastructure Development Group (PIDG) Trust to provide the Members of the PIDG with an independent evaluation of the Technical Assistance Facility (TAF).[1,2] The purpose of the evaluation was to assess "*performance and progress to date and to make recommendations as to the future development of the programme*".

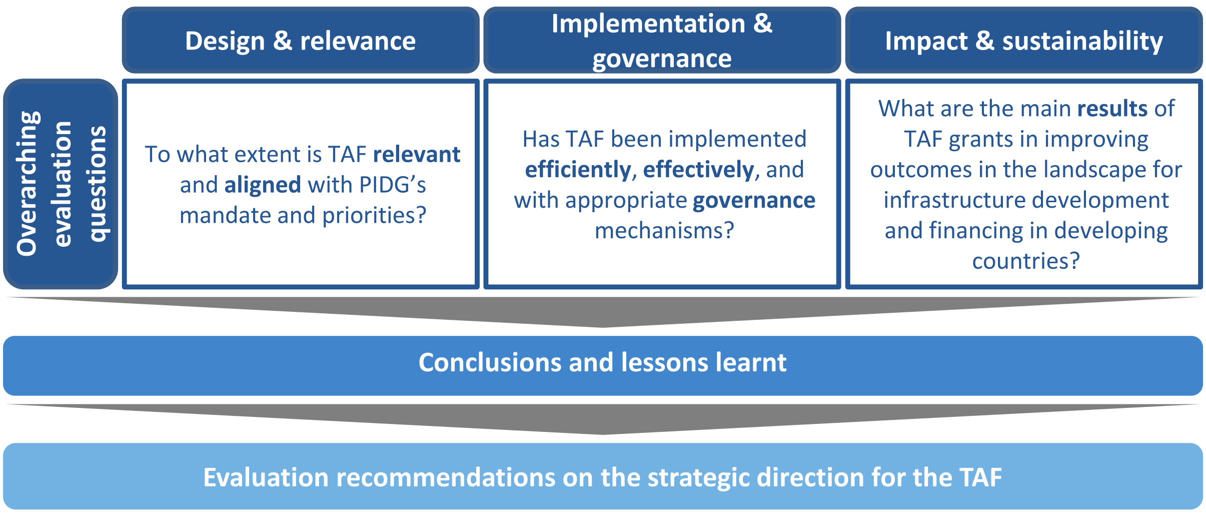
The assignment was split into two parts: an evaluation of the TAF, its design, processes and activities since inception ("Part 1"); and a strategic review of how the TAF should operate in the future ("Part 2"). It used a mixed-methods approach and was informed by a detailed data and document review, stakeholder consultations and case study analysis.

1. Evaluation of the TAF

1.1. Evaluation framework

The evaluation of the TAF was guided by an evaluation framework organised along three dimensions: a high-level version of the framework is provided below.

Figure 1: High-level evaluation framework



1.2. Evaluation findings

The TAF is a project preparation and financing platform for the PIDG Facilities which is well-aligned with the PIDG's mission of facilitating "*private investment in the infrastructure sector in developing countries, with the objectives of promoting economic growth and reducing poverty*" and well-aligned with the specific objectives and activities of the PIDG Facilities.

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[1] CEPA is a London-based economic and financial Advisory business, working across a range of sectors including international infrastructure in emerging markets. CEPA's website is found here: http://www.cepa.co.uk/

[2] For a full list of PIDG Members please see here: http://www.pidg.org/members.

Further, while the TAF is one among many project preparation/ technical assistance facilities providing support for infrastructure development in developing economies, it is strategically placed to support the PIDG Facilities with limited risk of duplicating activities of other project preparation platforms in the market. This is due to: its flexibility in the range of interventions it can support; it being well-placed to understand the workings of the PIDG and its facilities; and it having lean grant approval and disbursement processes which enable it to respond quickly to the demands and needs of the PIDG Facilities. Building on this, the TAF's financing products (e.g. viability gap funding) and funding mechanisms (e.g. returnable grants) are also relatively unique instruments in the wider landscape of infrastructure financing facilities, and helpful for ensuring or extending the impact of PIDG projects. The appropriateness of the TAF is further driven by the fact that the TAF appears well-managed.

The PIDG website describes the TAF as "*a pool of funding within the PIDG Trust to assist PIDG companies to support capacity building and to help scope out potential investment opportunities*". While this should continue to be the purpose of the TAF, **there is scope for the TAF to evolve** in response to how the PIDG Facilities have evolved, as well as to ensure the TAF provides the most relevant support to the PIDG in addressing market failures in infrastructure development.

For instance, while certain types of support may have been justified when the PIDG Facilities were first established (e.g. funding for feasibility studies), the development facilities (i.e. InfraCo Africa and InfraCo Asia) in particular should now be operating at a level that enables them to deliver this work in-house and with their own internal resources. Accordingly, for those PIDG Facilities that are required to commission these studies regularly as part of their core business, we encourage the TAF Donors to direct funding for these activities through the facilities' core funding rather than through funding for the TAF. Ultimately, a rule should be agreed by the TAF Donors as to how these important activities are funded – whether through the TAF or through the development facilities' core funding.

Further, while it is clear that knowledge dissemination and awareness raising activities are beneficial to furthering the mandate of the PIDG, we question whether the TAF is the best-placed entity to be providing this type of support. Our view, as informed by the TAF's Statement of Operating Policies and Procedures (SOPP) and logframe, is that TAF products should be more output-linked and more closely tied to particular PIDG projects; and that the more general knowledge dissemination and awareness raising activities should fall under the purview of the PIDG CMO more generally.

There is also a pressing need to update the governance and monitoring and evaluation documents which provide the framework for the TAF's purpose and objectives. Specifically,

- **There is a need to approve a more relevant SOPP:** The most recently approved SOPP dates to 2008 despite the TAF having evolved over the past eight years. For instance, since then and among other changes, the TAF's 'Window 2' for capital market development support to GuarantCo has closed, VGF has been added as a TAF product, and returnable grants have been introduced as a funding mechanism for TAF products. Further, plans have been presented to the TAF Donors for a scale-up of the TAF, which includes such things as increasing the TAF's portfolio of returnable grants. Accordingly, the last approved SOPP do not reflect the current and evolving state of the TAF and a more up-to-date draft should be approved as a matter of priority.

- **It is difficult to track the TAF's performance using the current TAF Logframe:** The logframe has been amended annually to capture changes to the TAF but such that its indicators have not remained consistent over time; thereby making it difficult to track the TAF's performance over time. A new logframe with appropriate indicators that are aligned with the SOPP and consistent over time, while remaining sufficiently flexible to deal with the evolving nature of the TAF, should be developed and implemented alongside a new SOPP.
- **The TAF does not have an explicit Theory of Change (ToC):** Whilst the elements of a ToC are spelled out across the TAF Logframe and SOPP, we encourage the PIDG CMO, TAF Technical Adviser, TAF Donors and any other relevant stakeholders to collectively spell-out a more explicit and standalone ToC. There are currently a number of proposals for scaling the TAF in the future (discussed below). As these proposals are taken on board, a ToC will be a valuable tool for capturing and clarifying how and why the TAF intervenes in the infrastructure development landscape going forward.

Collectively, these actions will also help to formalise and clarify the roles and responsibilities of the various actors involved in the implementation and governance of the TAF – something which stakeholders have stressed would be of value.

1.3. Evaluation summary

It is clear that **the TAF has delivered lasting impact** in many of its transactions. This impact, while limited by its size in the context of the wider infrastructure development space, has been responsive to the needs of the PIDG Facilities, balanced in delivering on TAF Donors' special interests, and successful in alleviating key bottlenecks in the project development cycle. The section below discusses how this impact might be scaled-up going forward.

2. TAF STRATEGY

The future of the TAF has received a lot of attention recently as part of a wider "One PIDG" strategy proposed for streamlining the PIDG and improving coordination among its family of facilities. The TAF-DevCo Working Group has proposed two different scenarios for scaling up activities:

- **a conservative approach:** TAF spending (inclusive of both grant spending and administration costs) increases to around US$22.75m each year; and

- **a phased growth approach:** significant increases in spending over a three-year period (US$29.65 in 2016, US$43.77m in 2017 and US$57.81m in 2018).

Our recommendations on the proposals for TAF are summarised below, organised by the three dimensions of the CEPA evaluation.

2.1. Design & relevance

Review current TAF products and continue to support those activities that can be directly linked to PIDG projects and are essential for progressing projects along the project development cycle.

Regardless of which scale-up approach is adopted, there is scope to review the TAF's products to ensure that the TAF continues to be effectively and efficiently implemented.

Since the project development facilities should in our view have the capacity to undertake core project preparation activities, such as the coordination and funding of feasibility studies and environmental and social impact assessments (ESIAs), we encourage the TAF Donors to consider providing funding for these activities through the development facilities' core funding (where it is not already), rather than through the TAF. We also advise that a rule be put in place for the funding of such activities – i.e. if funding for them is provided through the facilities' core donor funding, they should not seek additional support from TAF for the activities. Providing funding through the development facilities may also minimise transaction costs related to these studies as the costs associated with TAF grant application and management processes will not be incurred. Note that this recommendation does not apply to the financing facilities, which are typically not assumed to have the capacity to fund such activities.

We also advise that more general knowledge dissemination and awareness raising activities be channelled through the PIDG CMO, rather than the TAF, in cases where they are difficult to link to specific PIDG projects. TAF support should instead be focused on activities that can be clearly linked to specific outputs or outcomes for a PIDG Project.

Incorporate returnable elements into VGF grants as appropriate, to mitigate against windfall equity returns.

Under both of the proposed scale-up approaches, the majority of the increase in expenditure is expected to come from scaling up both returnable Window 1 grants and VGF grants. We support this but also encourage TAF stakeholders to consider incorporating returnable elements into selected VGF grants. A number of stakeholders noted the value this could deliver for mitigating risks of developers realising windfall equity returns. For certain types of projects, this will be appropriate (e.g. where volume-driven upside is possible), but for others it may not be, as by definition a VGF grant is filling a 'viability gap'.

Provide clearer guidance on what activities large returnable grants will support and incorporate this into the SOPP before this product is launched.

While we endorse the scaling the use of large returnable grants within TAF, as these can provide an important form of support to further infrastructure development, the activities that can qualify for this type of support should be clearly articulated and formally incorporated into the TAF's SOPP.

Proactively support Facilities with development add-on activities, but develop specific eligibility criteria for determining what support is chosen.

While development add-on activities should not be the main focus of the TAF's work, they can deliver additional development impact for PIDG-supported projects and the TAF Technical Adviser should continue to proactively seek out opportunities for these types of grant activities. These grants also align well with PIDG Donors' request to increase the development impact of the PIDG's activities.

Consider allowing the PIDG CEO and TAF Technical Adviser to approve grants of up to US$250,000, if donors are supportive of removing the need for no objection.

We consider that increasing the approval threshold for TAF grants in line with the grant size proposed for upstream technical grants may be beneficial for the TAF scale-up, and will reduce the management role undertaken by TAF Donors. All decisions on grants below this threshold should be taken formally by both the TAF Technical Adviser and the PIDG CEO. This proposed change should of course be confirmed with the TAF Donors, who may wish to retain the current US$75,000 threshold for no objection, which has not caused undue delay or burden to date.

2.2. Implementation & governance

Consider Phased Growth scenario for scale-up, but increase staffing levels further to accommodate the increase in activity.

Of the two scenarios being considered for the scale-up of the TAF, the conservative approach involves TAF expenditure remaining constant at around US$22.75m per year, while the more ambitious Phased Growth scenario involves funds gradually increasing to more than US$57m per year by 2018. We recommend that the latter scenario is more appropriate, as this fits with likely demand, although it is critical that sufficient staff resources are in place to deliver this ambitious growth plan.

Focus on developing joint development plans (JDPs) well for a small number of countries and capture corresponding plans in appropriate logframe targets.

Current plans proposed under the Phased Growth scenario include ten JDPs being developed and implemented in the first three years of the scale-up. Instead, we recommend that TAF stakeholders concentrate the JDP resources on a smaller number of countries and over a longer period of time in order for high-quality JDPs to be developed, and to allow for the JDP approach to be fully tested.

The working group have proposed that JDPs are initially developed for Kenya and Myanmar, with the following two countries being Zambia and Nepal, subject to resource availability. While these countries may be appropriate, TAF support should of course be targeted at activities which are not already supported by other partners; for example, in Kenya many donor-backed institutions are already operating in the infrastructure development space. It will be important to obtain government support for the proposed activities under the JDPs, which again argues for a more phased roll out of JDPs.

TAF Logframe targets related to the JDPs should reflect realistic milestones and appropriate outcome targets which reflect the underlying rationale for the JDPs (e.g. targets for measurable advancement towards project close).

The objectives, activities and planned outcomes of the JDPs (and other tools proposed as part of the TAF scale-up) should be captured in an explicit ToC.

Keep approval processes unchanged for larger Window 1 grants but adopt governance process proposed by TAF-DevCo Working Group for VGF and large returnable transactions.

For larger grants, we recommend that current grant approval processes remain relatively unchanged, such that the TAF Donors are still required to provide no objection for large grant applications within a ten-day period. This will allow the TAF Donors to have some oversight of these larger grants. However, as part of the current approval processes, the PIDG CEO is required to formally review and comment on large grant applications prior to them being sent to the TAF Donors. Given the many pressures on the PIDG CEO, we suggest this step is removed from the formal approval process, but the CEO would naturally need to be kept sighted on any TAF activities.

2.3. Impact & sustainability

Ensure perceived and actual conflicts of interest in relation to the assessment of TAF grants are appropriately managed.

The proposed scale-up plans include involvement, on a rotating basis, of PIDG facility credit committee chairs in the TAF's Panel of Experts. There is a risk that this could give rise to actual or perceived conflicts of interest, and such risks will need to be appropriately managed.

IFC Advisory Services will be a powerful partner for the proposed scale-up of the TAF's upstream development work, but it will be important for the TAF to ensure that TAF-supported activities have clear linkages to PIDG-supported transactions.

Part of the rationale behind the TAF-DevCo scale-up is for the PIDG to leverage the resources, including network, of IFC Advisory Services – the manager and user of DevCo funds – to help drive the scaling up of the PIDG's upstream development activities. IFC Advisory Services is a powerful partner for upstream development work and we support the proposed collaboration, but note that it will be important for the TAF to ensure linkages to PIDG transactions are clear. We caution that an over-reliance on IFC Advisory Services (e.g. if PIDG is funding solely through DevCo) for the delivery of upstream activities may not be appropriate and the TAF should also continue to be able to grant directly to support upstream activities (i.e. not through a facility), so long as the links to specific projects in the pipeline is clear. As well, an appropriate risk mitigation mechanism may be to give the PIDG CEO control over how TAF funds are used in this upstream space.

2.4. Options for the medium- to long-term

Finally, we outline new areas that could be considered for the TAF in the longer term:

Consider supporting Partial Risk Guarantees (PRGs) that help to catalyse private sector investment.

PRGs can be a useful tool for attracting private finance to projects. TAF stakeholders should explore the feasibility of the TAF supporting transactions where PRGs are used, as TAF funding could result in country governments that are indemnifying PRGs decreasing their funding limits from Multilateral Development Banks (MDBs) while increasing private finance that is attracted to projects. This is also an area where TAF support could be structured as returnable grants. When deciding whether the TAF should support PRGs, the PIDG will need to consider both the demand side and what other actors are doing or have planned in this space. As well, other financing facilities may be better resourced to support PRGs than the TAF.

Consider allowing third parties to access funds for particularly innovative transactions.

Although the focus of the TAF's funds should be on increasing the deal flow of PIDG Facilities, we encourage the TAF stakeholders to consider the feasibility of the TAF supporting innovative or transformational activities outside of PIDG-supported projects. These third party projects should deliver wider demonstration effects with the potential to raise the overall profile of the TAF and the PIDG. If the TAF were to support third party transactions in the future, it would be important to incorporate clear criteria on when it is appropriate to support such transactions, in addition to how many per year, in the TAF Logframe and SOPP.