Construction
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Briefing Note 1

# FINANCING FOR DEVELOPMENT AND INFRASTRUCTURE INVESTMENT


Photograph courtesy of the World Bank

Infrastructure underpins almost every aspect of economic growth and human development. It is not surprising therefore that the preparatory discussions for FfD3 were littered with references to infrastructure and the urgent need to increase investment. However, questions remain about how we ensure that any increase in investment delivers value for money and meets the needs of the poorest. This briefing note is a contribution towards answering those questions. It draws on the experience of CoST across 14 countries.

## What is CoST?

CoST works with government, industry and civil society to promote transparency and accountability in public investment in infrastructure. It achieves this by disclosing information routinely and periodically over the whole project lifecycle. This information is designed to inform and empower stakeholders and enable them to hold decision-makers to account.

CoST can be adapted to the local context and it is being implemented in 14 countries – Afghanistan, El Salvador, Ethiopia, Honduras, Guatemala, Malawi, Philippines, Tanzania, Thailand, Uganda, Ukraine, United Kingdom, Vietnam and Zambia. Each programme is overseen by a multi-stakeholder group (MSG) comprising representatives from government, industry and civil society. A new programme might start on a 'voluntary' basis where there is no legal requirement to disclose information, but eventually disclosure is institutionalised through the establishment of a mandatory 'Formal Disclosure Requirement'.

Improvements in transparency and accountability help to create a business environment in which corruption is less likely to occur and helps drive improvements in management and efficiency. Ultimately, improvements in transparency and accountability contribute to better value for money and better quality infrastructure and services. This helps to change lives by enabling more people to use roads, access clean drinking water, and well-built schools and hospitals.

## FfD3 & Infrastructure

The draft Addis Ababa Accord[1] described "enormous unmet financing needs for sustainable development" (p. 1) and acknowledges that "investing in sustainable infrastructure ... is a pre-requisite for achieving many of our goals" (p. 3).This highlights a sobering reality: unless we find ways to rapidly expand the stock of good quality infrastructure in low and middle income countries, the Sustainable Development Goals currently being negotiated are likely to remain unattainable.

The proposed solutions to this challenge are also evident in the draft. The focus is on increasing investment through: improving the enabling environment, (p. 3), mobilising additional public spending on social infrastructure (p. 6), ensuring a pipeline of well-prepared investable projects (p. 10), establishing new investment platforms (p. 10 & 12) and scaling up PPPs (p. 20). These solutions are important and if implemented as part of a concerted international effort, could make an important difference, but gaps remain too. The following five 'lessons' can help plug those gaps and ensure the effectiveness of any additional investment.

### Spotlight on CoST Ethiopia

CoST Ethiopia has a track record of identifying problems and driving improvements in public sector infrastructure. It recently disclosed information on 16 road, irrigation and building projects. The information highlighted an average cost increase of 44% on road projects and a $13.2m or 90% cost increase on the Gidabo irrigation project in central Ethiopia.

Action on an earlier disclosure on the Gindeber to Gobensa road project led to a major cost saving. It identified significant overpricing in the budget. A subsequent redesign saved $3.5m and 6 months in construction time.

Steps have also been taken to build government capacity to disclose information with a new public procurement website, training officials from over 100 procuring entities and publication of a disclosure manual.

CoST Ethiopia is located within the Federal Ethics and Anti-Corruption Commission and its Champion is H.E. Commissioner Ali Sulaiman.

CoST Ethiopia MSG Chair Eyasu Yimer said:
*"It is an honour to welcome international participants to Ethiopia for FfD3. We hope that the outcomes will emphasise the need for good quality infrastructure and for improved transparency and accountability in its processes and its delivery."*

## Five lessons from CoST for FfD3

1. Promote Public Sector Transparency
   The public sector accounts for the lion's share of infrastructure investment in many low and middle income countries[2], but where governance is weak and decision-making opaque, citizens will inevitably lack opportunities to influence that investment. Transparency addresses this deficiency by providing citizens with the information they need to hold decision-makers to account. Informed citizens and responsive public institutions combine to create a virtuous circle that helps to ensure that infrastructure investments deliver value for money and meet the needs of the poorest.

2. Focus on Efficiency
   Closing the infrastructure funding gap is not just about mobilising additional investment; it is also about increasing the efficiency of investments. Estimates of losses through corruption range between 10 and 30 percent. We estimate that losses through mismanagement and inefficiency are on a similar scale. CoST baseline studies in eight countries for example, showed that 40 per cent of projects experienced time over runs of up to twice the initial estimates and cost over runs of up to 140 per cent[3]. This means that up to a third of any new investment in infrastructure could be lost unless it is accompanied by measures to improve management and efficiency.

**Rehabilitation of the Belize Bridge, Guatemala**

CoST Guatemala identified that an invalid procurement process had been followed. It was eventually determined that the planned work was unnecessary. The contract was cancelled saving $4.5m of public money

3. Politics Matter
   A range of factors determine the success or otherwise of a CoST programme, but the most important are often political. Understanding what these factors are and how they might affect the programme requires looking beyond the formal structures to reveal the underlying interests and incentives of those involved and the distribution of power between them. CoST undertakes political economy (PE) analysis whilst assessing applications to join the programme, as part of the 'scoping studies' that follow the approval of applications and on an on-going basis over the entire life cycle of a programme. Some multilateral and bilateral donors have introduced PE analysis into their decision-making and this should be extended to all investments.

4. Strengthen Data Management
   The potential of big data and open data to help achieve human development goals is widely recognised, but the application of these approaches to infrastructure investment is still in its infancy. CoST demonstrates that good quality data not only enables the measurement of change, it can be the fuel that drives change. CoST requires procuring entities to disclose information in the CoST Infrastructure Data Standard format. It comprises 40 items that people need to hold decision-makers to account. There are numerous examples of the media amplifying problems identified through disclosure and of this leading to the cancellation of failing contracts (with the intention to retender) and significant cost savings. Data can also enable comparative analysis of performance at a sector level and between geographical regions and be a driver of improved performance.

**Gindeber to Gobensa Road Upgrade, Ethiopia**

Disclosure revealed a huge quantity of earthworks at the design stage. The Road Agency reviewed the design and determined there was a significant overestimate. The design team were debarred from future contracts, a new design commissioned and a cost saving of approximately $3.5 million secured.

5. Encourage Collective Action
   Multi-stakeholder initiatives have emerged as an effective collective action approach to solving complex governance challenges. They provide an environment in which government interacts directly with civil society and industry stakeholders and a mechanism to ensure that those effected by change (or at least those representing their interests) have an opportunity to influence it. Each CoST national programme is overseen by a multi-stakeholder group, or MSG, comprising representatives from government, industry and civil society. It provides a high degree of legitimacy to reform efforts and can help sustain that effort in challenging political circumstances. It also helps drive accountability by building interest in the disclosed data and by influencing policy-makers to act on it. The barriers to effective infrastructure investment are complex and collective action solutions are proving effective in overcoming them.

## Conclusion

Transparency and accountability are necessary, but not sufficient conditions for ensuring value for money from infrastructure investment. Other conditions are important too, but transparency and accountability are fundamental. They ensure that decisions are subject to public scrutiny and that those responsible are held accountable for their actions. Without transparency and accountability the prospects for meeting the infrastructure commitments contained within the Addis Ababa Accord will be significantly reduced.

[1] This section is based on the 'Zero Draft of the Outcome Document' published on 16 March 2015.
[2] See for example World Bank (2011) Handbook on Infrastructure Statistics, (p. 51) http://infrastructureafrica.org/system/files/library/2012/02/Handbook%20on%20Infrastructure%20Statistics.pdf [Accessed 25/06/15].
[3] CoST (2011) Report on Baseline Studies: International Comparison, http://www.constructiontransparency.org/documentdownload.axd?documentresourceid=42 [Accessed 24/06/15].

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